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PREPARING FOR THE GATT: A REVIEW OF AGRICULTURAL TRADE ISSUES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FOREIGN AGRICULTURAL POLICY

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

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PREPARING FOR THE GATT: A REVIEW OF AGRICULTURAL TRADE ISSUES

Prospects for World Food Production (Short Term and Long Term)

TUESDAY, JUNE 3, 1986

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Wilson, McConnell, Hawkins, Dixon, and Zorinsky.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The subcommittee will come to order.

This hearing is one of a series entitled, "Preparing for the GATT: A Review of Agricultural Trade Issues," and this first hearing is entitled, "Prospects for World Food Production: Short Term and Long Term," so we have a sense of what the American farmer can look forward to with respect to competition worldwide and also with respect to consumption worldwide.

We certainly have experienced quite a drastic reduction in agricultural exports. They have plunged from nearly $44 billion down to $27.5 billion. I suppose we can assess a whole bunch of blame and try to bring that business back, and all we have to do is find a means to restore that business. I think it can be done. I think some of the things we have done in the farm bill are going to help us, and perhaps restoration of some more positive currents in the world economic situation would also help.

Also, these hearings are set so that we can look forward to the GATT negotiations that are coming up. That is going to be an important element of what we achieve from the standpoint of trade negotiations that could lead to larger trade numbers for U.S. agriculture.

In the event we restore some economic vitality to some of the developing nations of the world, and they begin to put more protein into their diets, then indeed we could see demand spark quite nicely.

There are all kinds of things that could happen, and I believe our witnesses today will examine the short-, medium-, and long-term prospects of world production and also consumption. Principally, we will focus on production.

I am glad to see so many of my colleagues here, who I know have an interest in this

Senator Zorinsky, do you have an opening statement?

Senator **Zorinsky**. Mr. Chairman, I commend you for holding this hearing. I do have an opening statement, but in the interest of time, I ask that the statement be placed in the record.[1]

Senator **Boschwitz**. We will certainly do that.

Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator **Wilson**. Mr. Chairman, I am not only pleased, but I congratulate you for initiating and holding this whole set of hearings. I am delighted that you have done so, and the topics that you have selected will provide a comprehensive and, to say the least, timely review of these issues.

I look forward keenly to participating with you in these hearings over the next 2 months.

I will submit my complete statement for the record,[2] but I would like to summarize here a few key points, some observations about the new GATT round and its impact on agriculture. As you know, Mr. Chairman, having visited there, my State is one that is heavily dependent upon agriculture as its No. 1 industry—over 2.8 million acres in California, representing 32 percent of the State's croplands are utilized to grow produce for export. Over 20 percent of our farm income is derived from exports. So the importance of the new GATT round for California agriculture cannot be overstated.

That is why I recently held a Senate Agriculture Committee field hearing in Sacramento on international trade issues which covered the new GATT round, the United States-Canada Free Trade Agreement, and the enlargement of the European Economic Community. That hearing provided me with some excellent testimony from a number of farmers and farm organizations concerned with international trade. The witnesses all agreed that in the new round of international trade negotiations, agriculture promises to be as contentious as ever.

As you know, having visited the last GATT ministerial meeting some, I guess, 3 years ago now, agriculture has historically not faired very well in the GATT negotiations. You and I had an opportunity with our colleague, Senator Dixon, to revisit that issue with Sir Roy Denman in an informal setting in this room recently. It was a rich experience, I know you agree.

But the danger always exists that agriculture can be offered as the "sacrificial lamb" to achieve nonagricultural concessions. For these reasons, I think agricultural interests must be very much alert to that fact, to their own interest, and I think they have to organize to defend and promote their objectives in a new round.

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[1] See p. 266 for the prepared statement of Senator Zorinsky.

[2] See p. 261 for the prepared statement of Senator Wilson.

The witnesses at my Sacramento hearing also emphasized that a high priority for agriculture in the new round is to improve the framework of the GATT, in particular the dispute settlement process and the Codes of Conduct. We have got to put some teeth into these mechanisms to gain respect for and adherence to their rules if GATT's to be really meaningful in terms of the protection, and not protectionism, that it is supposed to perform.

On the subject of subsidies, disparate interpretation of what constitutes a permissible subsidy under the GATT has resulted in tremendous tension between United States and European farmers and between the trade negotiator and the European Community.

The importance of the elimination of trade-distorting foreign practices cannot be overemphasized. Certainly, within the existing subsidies code, there has got to be a far greater definition, much greater clarity, with respect to what constitutes an illegal agricultural subsidy. The current definition is so loose that it affords virtually no assistance whatever. Essentially, to be considered illegal, a subsidy must result in an "inequitable market share," and clearly, that exists in the eye of the beholder.

While I realize these subjects are going to be explored thoroughly in the upcoming hearings that you have scheduled, Mr. Chairman, I wanted nonetheless to touch on them explicitly in this opening session with much attention being dedicated to expanding GATT coverage to encourage trade in other sectors. The agricultural community must remain diligent to assure that it not end up as the net loser after the process is completed.

So again, I commend you for your foresight in planning and scheduling these hearings, and I look forward to the testimony of our distinguished guests.

I thank you.

Senator BOSCHWITZ. I thank you, Senator Wilson. You have touched upon the reasons why we are holding this series of hearings and that this one focuses on prospects for world food production. In another hearing, we will go on to barriers in agricultural trade, then the impact of the farm bill, and finally, the GATT negotiations. But yet, all of them will be focused and directed at the upcoming GATT negotiations.

As you point out, GATT is what you want to make of it, and if you want to use it as a tool to be an obstructionist, as we have seen, it can be done; so that we have to be careful that that does not occur.

I have a statement from Senator Heflin, who is in Alabama today. Apparently they have a primary there. I noted last evening that he was reading poetry on TV, but I see that he is gone today. I ask unanimous consent that his statement be put in the record.[3]

Senator Dixon.

Senator DIXON. Well, Mr. Chairman, I share the enthusiasm of my colleagues for these hearings. You are to be warmly congratulated. This is an issue of the greatest importance to American agriculture, and I place a statement in the record with your permission, Mr. Chairman, and look forward to this series of hearings.[4]

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[3] See p. 267 for the prepared statement of Senator Heflin.

[4] See p. 267 for the prepared statement of Senator Dixon.

Senator BOSCHWITZ. I thank you, Senator.
Senator McConnell.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Senator MCCONNELL. Mr. Chairman, let me echo the congratulations of others for your leadership in this most important area. I have a statement which I would like submitted in its entirety for the record.[5]

Let me summarize my statement by saying that agricultural trade issues were at the forefront of the debate on the farm bill, and no doubt they will be of primary concern in the upcoming GATT, as all of us have indicated.

It is vital that we develop our perspective on the priorities to be advanced by our representatives at the upcoming summit.

In the short term, the developed nations will carry the burden of producing enough food to meet world demand. This may lead to domestic trade policies which are not necessarily conducive to a level playing field trade environment.

For instance, subsidy programs of the EC and the United States provide a cushion for farmers as competition for new markets becomes more fierce. These programs are both costly and ineffective in dealing with the problems of world hunger.

In the long term, we must pursue agricultural and trade policies which promote free trade. We must avoid the temptations of the quick fixes of protectionist legislation and supply controls and maintain an awareness of the impacts of our actions on the developing world.

Abroad, we should continue to work to find creative solutions to the problems of economic development and work through GATT and all international forums, to promote free and fair trade among all nations.

Thank you very much, Mr. Chairman.

Senator BOSCHWITZ. I thank you, Senator, and I thank all the Senators for their kind remarks about the hearing.

Now we will ask our four witnesses—Bob Thompson, why don't you come up first? I think that would be the simplest thing.

Bob Thompson is Assistant Secretary for Economics, we welcome you here today.

We have only four witnesses so that we have reasonable time for each one of you.

Please proceed.

STATEMENT OF HON. ROBERT L. THOMPSON, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

Dr. THOMPSON. Thank you very much, Mr. Chairman and members of the subcommittee.

I am pleased to appear before you today to discuss the short-, medium-, and long-term prospects for world agricultural production.

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[5] See p. 263 for the prepared statement of Senator McConnell.

In response to your request for a broad perspective, in my prepared statement I will first review developments in the world market in the 1970's and early 1980's, and then speculate on the trade setting we are likely to face in the next decade.

In the interest of time, I will submit the full statement for the record, but will abbreviate my comments here today, focusing more on future prospects rather than viewing as much of the history of what has happened over the last 15 years.

Senator BOSCHWITZ. The history of it would also be interesting, if you do not mind.

Dr. THOMPSON. Yes, sir.

Senator BOSCHWITZ. I think it would be appropriate that one witness should establish that.

Dr. THOMPSON. Yes, thank you.

A wide range of supply and demand developments combined in the 1970's and 1980's to increase both the importance of the United States in the world market for farm products and the importance of the world market to U.S. agriculture. In the 1970's these developments worked both to expand world agricultural trade and increase the U.S. share of that market at an unprecedented rate. World trade expanded fourfold while U.S. exports increased sixfold. By 1980, over a third of our cropland was committed to producing for export, while 2 out of every 5 tons of the farm products traded were produced in the United States.

Many of the same factors worked in reverse in the 1980's. Growth in world agricultural trade essentially stopped, and U.S. exports dropped more than a third. This 40-million-ton drop in exports, following on the heels of the 1970's 85-million-ton runup, lies at the heart of many of the problems we face in agriculture today.

We are in the midst of a far-reaching restructuring of the sector, complicated by the world market's limited ability to react to swings in supply and demand without sharp adjustments in prices and production in the countries linked to it. Hence, the adjustments underway in the United States point out the importance of improving the operation of the world market through initiatives like the multilateral trade negotiations and the GATT.

EXPANDING MARKETS IN THE 1970'S

The 1970's saw unprecedented growth in the world market for farm products, particularly farm products produced in the United States. This growth had its roots in an unusually bullish combination of slowed growth in production and continued growth in consumption overseas.

Growth in production abroad slowed from 2.8 percent a year over the 1950's and 1960's to 2.2 percent in the 1970's. While growth in consumption also slowed, the drop was significantly less—from 2.9 to 2.7 percent per year. The widening difference between growth in production and consumption that resulted increased the rest of the world's dependence on U.S. production. Growth in world trade increased from 3.5 percent per year over the 1950's and 1960's to 4.7 percent per year in the 1970's, while annual growth in U.S. exports accelerated from 4 to more than 10 percent per year.

The factors underlying slowed growth in production abroad have been well-documented. Falling commodity prices and farm incomes discouraged investment in agriculture in much of the 1950's and 1960's. Many developing countries consciously underwrote industrial development with resources transferred from their farm sectors. Resources also flowed out of agriculture in many of the developed countries, and investment in items such as fertilizer production capacity slowed worldwide. These factors, combined with several years of very poor weather in countries such as India, the Soviet Union and China slowed, and in some years reversed postwar expansion in food production.

The 1970's continued growth in consumption abroad is all the more impressive against this backdrop of slowed growth in production and the high and rising commodity prices it sparked. Rapid economic growth, combined with population increases and urbanization in the middle-income countries generated unprecedented growth in demand for a wide variety of goods and services.

Growth in demand for farm products shared in this general expansion as rising incomes allowed consumers to upgrade and diversify their diets. Much of this growth was met initially through local increases in agricultural production. But with limited capacity to produce locally and crop shortfalls a problem, many countries turned to the world market as a regular source of supply.

TABLE 1.—GROWTH IN WORLD AGRICULTURAL PRODUCTION, CONSUMPTION, AND TRADE

[In percent]

	1951-85	1951-70	1971-80	1980-85
World:				
Production	2.4	2.5	2.3	2.2
Consumption	2.4	2.5	2.3	2.2
Trade	4.0	3.5	4.7	1.8
Foreign:				
Production	2.6	2.8	2.2	2.6
Consumption	2.7	2.9	2.7	2.3
Trade	3.9	3.5	4.7	1.6
Per capita production	.7	.8	.3	.7
Per capita consumption	.8	.9	.8	.5
United States:				
Production	2.1	1.9	2.8	1.9
Consumption	1.7	1.8	1.2	1.4
Trade	5.0	4.0	11.7	−6.6
Per capita production	.8	.6	1.9	1.0
Per capita consumption	.4	.4	.3	.5

Several international financial developments reinforced this growing dependence on agricultural trade. The world money supply more than doubled during the 1970's as the Euro-dollar market expanded, as new reserve assets such as SDR's were created, and the world's banking system successfully recycled the OPEC petro-dollars. This expansion provided the financial underpinning for an expanded world trade.

Many of the largest food-importing countries also increased their exports in the expansionary trade environment of the 1970's and doubled—in some cases tripled—their foreign exchange earnings. This growth in international purchasing power, supplemented with low-cost credit, allowed many countries to expand food imports while servicing growing debts and increasing purchases of other goods and services. With the value of the U.S. dollar declining, the cost of importing even with borrowed money actually fell for much of the decade when gauged in local currency terms.

Agricultural and trade policy changes in many of the importing and exporting countries also encouraged growth in trade. Many countries eased import restrictions that had been designed to protect foreign exchange reserves and support domestic farm programs. Some countries, including several OPEC members, actually instituted import subsidy programs. Others downplayed longstanding self-sufficiency goals and simplified importing procedures in the face of rising political pressure for dietary improvements.

Faced with many of the same financial considerations as the middle-income countries and political pressures to upgrade diets of their own, the centrally planned economies also revolutionized their agricultural and trade policies. The Soviets, the Eastern Europeans, and the Chinese all became regular participants in the world market and eventually grew to overshadow the middle-income countries.

In this environment, world agricultural trade expanded from $50 billion a year in 1970 to more than $225 billion by 1980. The number of countries depending regularly on imports or exports for more than 5 percent of their food supplies or markets grew from less than 25 to more than 40 in the same period. And, equally important, the 1970's increase in trade and growth in the number of countries willing to trade strengthened the heretofore uncertain operation of the world market.

U.S. GAINS

The U.S. share of this expanded market in the 1970's increased sharply. The stocks on-hand in the United States at the start of the 1970's were large, albeit not as large as late in the decade. These stocks, combined with more than 60 million acres of idled capacity and the infrastructure needed to deliver large volumes in question, put this country in an extremely strong competitive position. Moreover, while the United States suffered a severe crop shortfall in 1974, the other major exporters, along with several of the major importers, experienced even worse weather that limited their export availabilities for 3 or 4 key years during the decade. In addition, transportation difficulties also limited several other exporters' ability to expand sales in years when their supplies were large.

The U.S. livestock industry's responsiveness to changes in prices also ensured that supplies were available for export even during shortfall years. Given the direct link between United States and world markets, less price-sensitive buyers abroad were able to bid 30 to 40 million tons of feedstuffs away from U.S. cattle, hog and poultry operators.

Farm legislation passed in the late 1960's and the macroeconomic policies already in place contributed further to U.S. export expansion in the 1970's. The farm bills of the late 1960's began the separation of income and price supports that eventually allowed U.S. prices to reflect world supply and demand conditions rather than domestic farm income goals. Dollar devaluations in 1971 and 1973 and further weakening of the dollar in the second half of the 1970's also lowered the local currency cost of importing U.S. farm products sharply by the end of the decade in many of the key importing countries.

COMMODITY COMPOSITION

The commodity composition of the trade expansion of the 1970's also favored the United States. Increased affluence abroad translated directly into import demand for feedstuffs. The United States captured 52 of the 62-million-ton increase in world feed grain trade and 9 of the 15-million-ton increase in world trade in soybeans and soybean products. The United States also supplied virtually all of the 2-million-bale increase in world cotton trade and 21 of the 40-million-ton increase in world wheat trade.

These U.S. export gains increased the acreage needed to meet the foreign demand from 70 million acres in 1970 to 140 million in 1980. Moreover, these expanded United States farm trade horizons beyond Western Europe and Canada to the fastest-growing markets in Eastern Europe and the Soviet Union and the developing countries in South and East Asia, North Africa and the Middle East, and Latin America.

STAGNANT MARKET OF THE 1980'S

Many of the same factors which worked to expand trade in the 1970's worked in reverse in the early 1980's. While growth in production abroad rebounded from 2.2 to 2.6 percent per year with expanded investment in agriculture and more normal weather, growth in consumption has dropped off sharply. Economic growth slowed worldwide; the slowdown was pronounced enough in most middle-income countries to drop real—and in some cases nominal—incomes. The most severely affected countries in Latin America and Africa faced 10- to 20-percent drops in per capita income. Activity in many of the centrally planned economies also has slowed.

As a result, growth in per capita consumption abroad in the 1980's has slowed to less than two-thirds the pace of the 1970's. This slower growth has allowed many importing countries to limit—and in some cases reverse—their growing dependence on imports. Further, slower economic growth made importing countries more conscious of the employment and GNP costs involved in importing. In many cases, trade programs in place worked more or less automatically with the market reverses of the 1980's to protect farmers in importing and exporting countries from drops in world prices and cutbacks in production.

Changes in the international financial environment also have worked to encourage less dependence on imports. Growth in the middle-income countries' export earnings fell off precipitously from over 20 percent a year at the end of the 1970's to less than 3 percent with the general contraction in growth rate and drop in primary product prices in the early 1980's.

The centrally planned countries also face serious problems with their import earnings. For example, after increasing from $2 billion a year in 1970 to over $23 billion in 1980, the Soviet Union's hard currency exports stagnated so far in the 1980's and could fall more than a quarter with lower oil prices in 1986 to 1988.

The tightened supply and rising cost of credit also has worked to discourage imports in recent years. With the value of the dollar up sharply, the local currency cost of transactions carried on in dollars, including repayment of debts incurred in the 1970's, also has risen sharply. These factors have forced many developing countries to reduce imports and allocate their scarce foreign exchange to servicing their accumulated debt and also encouraged many developing countries to slow or reverse growth in imports.

AGRICULTURAL TRADE ADJUSTMENTS

Agricultural trade has not fared well in the adjustment process touched off by these changes in the macroeconomic, financial, and policy environment. World trade has stagnated over the first half of the decade. But U.S. farm exports fared even more poorly, with shipments off a third from the 1981 record.

This particularly sharp drop in U.S. exports reflects a fundamental shift in the U.S. position in the market from a preferred supplier in the bull market of the 1970's to a residual supplier in the bear market of the 1980's. Moreover, it also reflects fundamental weaknesses in the operation of the world market that left the few countries linked closely to the world market—such as the United States—faced with the lion's share of the adjustment.

For example, dollar appreciation in the 1980's weakened the U.S. competitive position vis-a-vis producers in countries with depreciating currencies. The widening margin between returns in the United States, and in other suppliers, encouraged them to expand production for exports and use price discounts and other aggressive marketing techniques to undercut U.S. sales. A higher-priced dollar also discouraged growth in import demand by raising the local currency price of dollar-denominated farm products.

Senator BOSCHWITZ. What was that again about other suppliers?

Dr. THOMPSON. To explain further, the widening margin between returns in the United States and other suppliers that occurred during this period encouraged those foreign suppliers to expand production for exports and use price discounts and whatever aggressive marketing techniques they felt could undercut U.S. sales.

U.S. farm policies interacted with policies abroad to maximize the U.S. adjustment burden. High and rigid price supports set without regard for market conditions made it difficult for U.S. producers to sell their products abroad. In this environment, the U.S. Government and the taxpayer bore a large part of the cost to adjusting to slowed growth in trade.

The factors that shaped world agricultural trade and U.S. farm exports in the last decade and a half will continue to shape agriculture in the decade ahead. Our assessment of likely future supply and demand balances suggest that world trade and U.S. exports will rebound, but gradually enough to leave the sector burdened with excess capacity and low-farm returns perhaps well into the 1990's.

TABLE 2.—PROJECTED GROWTH IN WORLD AGRICULTURAL PRODUCTION, CONSUMPTION, AND TRADE

[In percent]

	1980-85	1986-95
World:		
Production	2.2	2.2
Consumption	2.2	2.2
Trade	1.8	3.2
Foreign:		
Production	2.6	2.5
Consumption	2.3	2.6
Trade	1.6	3.2
Per capita production	.7	.6
Per capita consumption	.5	.7
United States:		
Production	1.9	2.1
Consumption	1.4	1.3
Trade	−6.6	4.5
Per capita production	1.0	1.2
Per capita consumption	.5	.4

TRADE GROWTH PROSPECTS

Despite the experience of the last several years, prospects for growth in world agricultural trade are favorable. A return to more normal 2.7 to 2.8 percent annual rate of growth in demand for farm products abroad is likely, assuming trend economic growth and expected increases in population. Most analysts agree that economic activity in the medium and longer term will match the postwar trend of 3 to 4 percent per year after recovery. This would be higher than the 1- to 2-percent pace of the first half of the 1980's, but below the 4- to 5-percent rate of the 1960's and 1970's.

Moreover, while population growth abroad is slowing, the world still is adding 80 million more people to feed each year. In addition, political pressure for dietary improvements in many middle-income countries is on the rise after several years of erosion. This could force governments back toward agricultural and trade policies that encourage faster growth in food supplies.

The 2.6-percent annual increase in demand for farm products likely with these factors at work would match or exceed trend growth in supply abroad, but by a narrower margin than in the 1970's. However, a return to faster growth in consumption than in production overseas should work to expand world trade at 3 percent or more per year through the mid-1990's.

PRODUCTION GROWTH ABROAD

Several factors could work to accelerate or slow this return to more normal growth in world agricultural trade. Among the uncertainties we face is whether growth in productivity abroad will slow to the postwar trend, and if and how the declining value of the dollar and lower oil prices will affect agricultural production and use.

While there is considerable agreement about the return to near-trend growth in demand for farm products, many analysts question what will happen to growth in supply abroad. Many postulate that the technological foundation is in place for fast enough growth in supply in the importing and other exporting countries to keep the gap between production and consumption narrowing and the U.S. share of that market declining.

The rebound in production of the 1980's contributed significantly to the slowdown in world trade and U.S. exports. Investments in capacity made in response to high prices and tight supplies in the 1970's combined with increased policy emphasis on self-sufficiency in the 1980's to expand production sharply in the importing countries in particular. Yet it would be misleading to extrapolate recovery in growth in the early 1980's with accelerating growth in the late 1980's and 1990's.

It is important not to lose sight of the political and economic forces working to slow growth in production abroad to or below trend. Many of the farm programs underlying the expansion in output of the early 1980's have proven more costly than expected. Higher-than-expected costs, combined with other budget pressures associated with the economic and financial reverses in the early 1980's, will make it difficult for many countries to continue the programs in question.

For example, increasing budget costs in India are increasing pressure on policymakers to reduce input subsidies, such as the $2 billion subsidy for fertilizer that has worked along with increase in irrigation to expand output sharply since 1981. In China, competing demands for scarce investment capital are limiting the added resources available for agriculture, and productivity growth is expected to slow during the next decade.

Several economic factors are likely to slow growth in productivity abroad as well. Adoption, and to some extent, development of much of the technology underlying the 1980's growth in productivity is dependent on high commodity prices and trade opportunities that are unlikely to remain strong in the face of long-term world surpluses and to the lower loan rates in marketing loans that we passed in the 1985 farm bill.

INTERNATIONAL DEBTS, LOWER OIL PRICES

In analyzing prospects for growth in world agricultural trade, other issues such as continued debt problems in many developing countries and lower oil prices will affect the pace and timing of recovery later in the 1980's.

The international debt crisis continues to overshadow economic growth prospects for the developing countries, particularly in the medium-term of 1 to 3 years. Interest payments will be lower as a result of broad declines in interest rates. This will ease the burden on the developing countries' balance of payments, allowing for greater domestic expansion and freeing up foreign exchange for development and imports.

Yet even with the help of lower interest rates, there are no quick fix solutions to the international debt problem. For many of those developing countries which were the growth markets of the 1970's, it will take 3 to 5 years to realign their finances so they can return to close to historical economic growth rates and trend increases in demand for farm products.

The lower oil prices in prospect for the next several years should partially offset the bearish impact of ongoing debt problems. Lower oil prices will generate lower inflation rates and faster economic growth in the world economy. Declining petroleum prices are especially helpful to the oil-importing developing countries. But lower oil prices could adversely affect market prospects in oil-exporting countries. Several countries in North Africa and the Middle East, as well as Nigeria and Mexico, are unlikely to return to the fast-paced import growth of the 1970's until well into the 1990's.

U.S. EXPORT PROSPECTS

How well the United States fares in this setting of moderate growth in world agricultural trade will depend on how successful we are in shifting back from a residual to a preferred supplier. This involves not only insuring that adequate supplies of high-quality products are available for export, but also that they are priced competitively and marketed aggressively. Without this aggressive marketing, most of the growth in world trade could be captured by other exporters, and the U.S. share of the market could stagnate or decline further.

The 1985 farm bill was designed to insure more aggressive export marketing. Its sharply lower loan rates and changes in the nature of the price and income support programs will insure that U.S. products are priced competitively in both bullish and bearish market settings. They also will insure that U.S. farmers have no option but to respond to market production and pricing signals.

The sharp decline in loan rates which this bill provides, particularly if combined with a weaker dollar, will eliminate much of the incentive to expand production in export-competing countries as well as in importing countries. Once it becomes evident that the United States will not price itself out of the world market—or set a high price floor protecting other producers—the competitors are likely to stop or slow investment in new capacity for export.

While it may take time, this change in competitor strategy eventually will open up markets for U.S. farm products and allow the United States to capture a larger share of growth in the market. Lower U.S. supports will also work to encourage growth in import demand in the importing countries as both their consumers and producers react to lower commodity prices.

With this improvement in the U.S. competitive position, exports could expand 4 to 5 percent per year over the next 10 years—about half the rate of the 1970's and similar to the export growth rate of the 1960's. At this pace, a new record volume could be reached in the early 1990's. Because of the lower export prices, however, the value of the U.S. agricultural exports will recover more slowly—perhaps not matching the record set in the early 1980's until the early 1990's.

Mr. Chairman, appendices are attached to my testimony, in which we give more detail about key commodity markets.[6]

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[6] See p. 268 for the prepared statement of Secretary Thompson.

TRADE LIBERALIZATION

Progress in liberalizing trade and strengthening the operation of the world market could improve the trade prospects I have described here today significantly. However, without liberalization, the morass of tariff and nontariff barriers now in place will continue to play a major role in shaping agricultural trade. With liberalization, we can expect the world market to operate more efficiently to the benefit of both importers and exporters involved.

To date, the General Agreement on Tariffs and Trade continues to accord special treatment to agriculture. For example, studies show that as much as 90 precent of world wheat trade is regulated by some form of tariff or nontariff barrier including state trading monopolies.

Multilateral trade liberalization would affect world commodity markets in several ways. Trade liberalization would lead to generally higher world agricultural prices. For example, a 1985 study by Tyers and Chisholm for the 1978–80 period estimates that eliminating tariff and nontariff barriers would have resulted in significantly higher commodity prices in the long run. They estimate that international market prices could have been increased 20 percent for wheat, 16 percent for feed grains, 27 percent for ruminant [illegible] and 6 percent for rice. I would also add that while they did not address dairy specifically, several other studies reached the same conclusion that multilateral liberalization of dairy policy would also significantly raise world dairy prices.

Senator Boschwitz. On what basis—to interrupt you with a question—on what basis would the liberalization of trade policy raise world dairy prices?

Dr. Thompson. On the basis that national agricultural policies in most of the trading countries—in most of the industrialized countries in particular, in the case of dairy—stimulate larger production than would otherwise occur. As a result of this, the net importing countries squeeze on imports, the net exporting countries expand exports, often with export subsidies, significantly depressing the world market price as a result.

So that if all countries simultaneously backed off from the level of support afforded—in this case, the dairy sector—the world market price would rise two-thirds or three-quarters of the way to the present support levels in the main producing countries, so that the domestic prices would not have to fall anywhere near as far as the current low world market prices. That is the basic argument.

Senator Boschwitz. One would think that rising prices, however, would have an impact of raising production.

Dr. Thompson. It depends which country, whether you are on the net import or the net export side. The point is that all the industrialized countries have their price supports set so extremely high for dairy that we all stimulate a margin of larger production and larger investment in dairy than we otherwise would have. So if all the industrialized world simultaneously scaled back on its level of assistance to dairy, marginally backing off on production, that world market price—which in a sense reflects a dumping market where we all get rid of our excess production induced by high supports—would increase significantly, say, two-thirds of the way up to the current levels of support in the industrialized countries.

Trade liberalization would also lead to greater international price stability as market adjustments would be spread across a larger number of importing and exporting countries. This is because protection of agriculture that stabilizes domestic prices through varying imports and exports of commodities destabilizes international market prices.

BENEFICIARIES OF TRADE LIBERALIZATION

U.S. farmers, who are efficient, low-cost producers of many agricultural commodities, would benefit from multilateral trade liberalization. They would gain increased access to many agricultural export markets not essentially closed. They would also face less unfair competition from inefficient suppliers currently subsidizing their exports. Greater international price stability would reduce the need for costly and painful resource and asset value adjustments.

U.S. taxpayers would benefit from trade liberalization. Government costs of farm programs would be reduced. The United States would also benefit from a more efficient allocation of the world's resources. Worldwide efficiency of agricultural production eventually translates into more rapid economic growth not only for the United States but for all countries involved in trade.

It is noteworthy, however, that trade liberalization also could involve costs for U.S. producers of highly protected products such as dairy, sugar, peanuts, and tobacco. Moreover, in some cases, tariff and nontariff barriers in place abroad actually have helped U.S. producers. For example, U.S. soybean exports may have been artificially stimulated by protection for grains under the EC's agricultural policies. Nonetheless, multilateral trade liberalization would minimize the costs of adjustment to producers in the United States and in other countries and alter them from a more liberal trading environment.

Thank you, Mr. Chairman, for your attentiveness, and I would be glad to answer any questions you may have.

Senator Boschwitz. Thanks. I just got the appendix, and I will read that as well.

Senator Wilson, if you have some questions of Dr. Thompson, you certainly should feel free to ask them now. Otherwise, I will go on to the next witness.

Senator Wilson. Thank you, Mr. Chairman.

Senator Boschwitz. I do not know what your time restraints are.

Senator Wilson. I will comment that I think this is a very useful presentation; the historical background, I think, is one that makes it worth keeping.

Senator Boschwitz. Yes, really.

Senator Wilson. I congratulate Dr. Thompson on both a scholarly and a very useful presentation. He has at one and the same time raised some red flags that deserve our caution and also have afforded some basis for at least limited optimism.

I think the thing that emerges from his testimony that sounds familiar to you and me, and strikes a sympathetic chord in both of us, are the comments that he makes about the trade barriers that we are encountering. I think the paper that he has submitted today really is a very effective backdrop for this entire set of hearings which you are proposing.

I wish that Dr. Thompson had been present when you and I entertained Sir Roy Denman recently.

Senator **Boschwitz**. I did not realize we were "entertaining" him. [Laughter.]

Senator **Wilson**. I think we were, at a couple of junctures.

But I think that this particular bit of scholarship explains a number of things, and I think it does not in any instance overdramatize the shortcomings of the GATT process as they have borne upon the difficulty of the American farmer in this period of the eighties, when world conditions did reverse the good times of the seventies.

I think the value of this is really in drawing attention to the distinction between problems that are those of the economic cycle and those that are really artificially created by the shortcomings of the GATT process for dealing with trade imbalances that are artificially created.

So, I really do not have any questions for Dr. Thompson, but I think his paper warrants comment. I think that it is a very useful piece of scholarship and perhaps modestly, not as emphatically as you and I did last week, implies some of the reasons that American farmers are suffering from what I think are artificial burdens in attempting to find a market for their very good exports.

Senator **Boschwitz**. I share Senator Wilson's enthusiasm, Dr. Thompson, for your statement, and I am pleased that you did read it all. It is useful to set the debates on which we will conduct these hearings, and it truly does set that basis.

I am fascinated with your statement on page 15 that, "Trade liberalization would lead to generally higher world agricultural prices," and in your comments on that, you said if everybody did it simultaneously. I suppose that this is not likely to occur, but if we could convince people that trade liberalization would indeed generally lead to higher world agricultural prices, we might be able to achieve something.

If you will stay there, we will bring up our next witness.

We will now bring up Dennis Avery—and Senator Wilson, you may have read some of Mr. Avery's material as well; he also is very scholarly in his approach. I read a review in a local newspaper of what he had written, and I was quite startled by what I read, so I thought I had better read what the author, Mr. Avery, had written and not what was reported he had written, and I found it to be somewhat different than what I saw reported.

Senator **Wilson**. Mr. Chairman, if you will indulge me further, I think given the excellent presentation we have had this morning, it would also be useful if we were to further ask Dr. Thompson or whoever might be appropriate within the Department of Agriculture to ask for this information. I have the distinct impression that at the same time that the Department of Agriculture is attempting to work for the interests of the U.S. farmer to enhance his ability to export, they are being undercut in that effort by a number of other U.S. agencies. I think, for example, of the fact that there does not seem to be any coordinated strategy guiding our foreign assistance program in many instances. We are making IMF low-interest loans and engaging in technology transfer to some trading partners who are, in fact, taking that with great equanimity and good humor, at the same time that they are not according us anything like the same kind of treatment.

We are also in our foreign assistance program providing means whereby a number of these trading partners are in fact subsidizing competition for our exports. So it seems to me that we are working at cross-purposes in many cases.

We have recently, for example—and I know this was over the Department of Agriculture's strenuous objection—we, the United States, have acted to make rather substantial loans to nations that are at one and the same time our debtors—I am thinking of Argentina—and also very much our competitors with respect to wheat exports. It does not affect my State much, but it affects very many people sitting around this table, and it is just one example of many.

It just seems to me that it would be a useful thing to have the Department of Agriculture analyze how the foreign assistance program of the United States, in general, makes life difficult for them in their role as they seek to enhance the ability of the U.S. farmer to export. That work may have been done already; it may have been done by someone else. But I think that it would be a very useful thing for those of us on this committee to know precisely what it is that we are facing by way of competition and how our own government is assisting in that competition.

Senator **Boschwitz**. I see you want to answer that, Dr. Thompson, and I would concur with that and expand it just a little bit to include the IMF and the World Bank, to see whether or not we are working at cross-purposes, and also with an analysis of whether or not helping the debtor nations may not particularly hurt our trading prospects. I presume we cannot keep them down over a long period of time, either. But that would be interesting, and perhaps you would like to comment on that either now, or if you wish to comment on it now, Dr. Thompson.

Dr. **Thompson**. Senator Wilson, regarding a coordinated strategy for our foreign assistance program in connection with IMF and World Bank lending, USDA does participate frequently in meetings of the National Advisory Council, an interagency entity. This group is chaired by Treasury, and reviews proposed IMF financing programs. USDA does not have authority to vote on proposed IMF programs.

Relative to proposed World Bank loans, however, USDA is an active voting member of the Development Coordinating Committee's Working Group on Multilateral Aid, also chaired by Treasury, which reviews such loans. This interagency body generally votes in favor of proposed loans which support economically viable projects. U.S. policy initiatives taken into account when these projects are reviewed include external debt alleviation, privatization, and trade liberalization.

The working group views projects supporting long-term development by the LDC's as in the best interest of the United States. USDA shares this view but USDA does oppose loans which support production of commodities for export which already are in surplus on world markets. We feel that these loans hurt U.S. producers and are not in the best interest of the U.S. economy.

Still we do get in a situation at times where we recognize that economic growth in the Third World is probably the greatest hope we have in the late 1980's and 1990's for expansion in export markets. They were the fastest growing market in the 1970's. They could be again in the eighties if they have successful economic growth.

Then you get into assessing at what point does assistance across the whole economy unduly stimulate the agricultural sector which ends up competing with the United States. So there is always that fine line that you have to walk between at what point you actually end up stimulating competition with the United States. Yet if there is no development of the food production capacity at all in the Third World, the country may not generate general economic development enough to increase the incomes, to increase demand for poultry and livestock products, and in turn for corn and soybeans.

So over the long term, I think the market is very optimistic for corn and beans, if the Third World has economic growth and increases demand for livestock and poultry products.

So you have that fine line that you must walk, and I would rather have Under Secretary Amstutz respond specifically to the interagency process that he is involved in, and we will do that for the record.

Senator WILSON. Thank you.

Senator BOSCHWITZ. I thank the Senator. It would be interesting to see that. I might say that it would appear in the interagency actions as of late that the Department of Agriculture has very much held its own, so to speak, that the Secretary should have very strong and broad access to the President, and as you know, Senator, as we discussed before, the Cabinet Council unanimously agreed to respond very vigorously to what is happening with the expansion of the European Community. So that I somewhat feel better about what they are doing there.

Senator WILSON. I share your view, Mr. Chairman. I would agree, there has been a far more assertive stance on the part of the Department, and it is most welcome.

Senator BOSCHWITZ. Yes.

[Written questions from Senator Dixon and Secretary Thompson's answers thereto:]

Question 1. Your prepared text indicates that U.S. agricultural sales could expand by 4 percent to 5 percent per year for the next 10 years. But export sales are contracting at an alarming rate, as you indicated in your testimony. What evidence do you have that supports your assertion that farm export sales will increase at that rate? Is this projected increase measured in value or in volume? Will U.S. farmers just be selling more product for less money?

Answer. U.S. agricultural exports in fiscal 1986 are expected to be the lowest since 1977-78 or down 30 percent in volume and almost 40 percent in value from the record levels set in the early 1980's. Although the new farm bill was passed in late 1985, the provisions of the new law that will have the greatest impact on U.S. exports in coming years—lower loan rates—do not become effective until the beginning of the various 1986/87 crop years.

Since most the the new crop years will not begin until late in the fiscal year, U.S. agricultural exports will have to operate under the constraints of the 1985/86 loan programs. In fact, part of the poor export performance in fiscal 1986 can be attributed to the 1986/87 program provisions. Expectation of sharply lower U.S. export prices as the new seasons begin for the various commodities June 1 for wheat, barley, and oats, August 1 for cotton, and September 1 for corn, sorghum, and soybeans—are causing importers to postpone purchases and demand lower prices from exporters. In an effort to lower burdensome stocks and to sell as much as possible before the new U.S. loan rates go into effect, foreign exporters have been making deals to induce importers to buy. The world price for many commodities has been driven down, but the 1985/86 loan rates have prevented U.S. export prices from dropping low enough to compete.

The ability of U.S. exports to rebound once they are allowed to become price competitive has been clearly demonstrated in the increase in rice sales since the initiation of the new rice marketing loan program in April. In early April, U.S. sales and shipments of rice were running at about 65 percent of the average of the 3 previous years. By late May, however, sales and shipments had rebounded to 77 percent of the 3-year pace.

There are many factors behind the expected 4 to 5 percent compound annual growth in the volume of U.S. agricultural exports. While the most important from a U.S. agricultural policy view point is the renewed price competitiveness, there are many other factors at work. The expected continued decline in the dollar, lower oil prices, and lower interest rates will combine with the lower commodity prices to result in a sustained rise in world imports. But, continued debt problems in several countries, insulation of many importers domestic markets from changes in world prices, and the increased productive capacity in key markets will keep the growth in world import demand below those experienced in the 1970's.

Another major factor determining the growth in U.S. exports will be the response of the foreign exporters to the new world market conditions as influenced by U.S. farm legislation. The surge in world import demand in the 1970's and the steady erosion of the U.S. competitive position in the 1980's, stimulated added investment in agricultural capacity and supporting intrastructure on the part of foreign competitors. Neither the governments nor farmers in these exporting countries can be expected to idle that additional capacity in the short-term. While it will take a few years of low returns before there is widespread adjustment in foreign exporters' production and exports, the U.S. will have won back much of its share of world markets by the end of the decade.

The turnaround in U.S. export values will be much harder to achieve. While unforeseen production shortfalls may lead to temporary run-ups in prices, it will take 3 to 5 years before growth in world demand and supply is sufficiently balanced to generate sustained gains in export prices as well as export volumes. Over the longer term we expect the percentage increase in export volume to be greater than the percentage decline in export price. So, while farmers will be selling more for less, overall returns will be greater.

Question 2. Does the Administration have any plans to begin trade liberalization talks with any of our competitors? What progress has the Administration made in achieving trade liberalization? Have we seen any additional farm export sales from efforts to achieve trade liberalization? Do any other major agricultural product-exporting nations share this belief in trade liberalization?

Answer. The Administration has issued a call for a new round of multilateral trade negotiations (MTN) to be conducted under the auspices of the General Agreement on Tariffs and Trade (GATT). Other contracting parties to the GATT have agreed to a new Round, now scheduled to begin in September 1986 in Punte del Este, Uruguay. Agricultural issues provided a major impetus for the call for a new MTN. Therefore, the liberalization of agricultural trade, and the strengthening of GATT Articles and Codes relating to agricultural trade, will be major issues in the upcoming MTN.

Prior to the MTN, the United States and Canada will pursue bilateral negotiations aimed at assessing prospects for freer trade in agricultural and nonagricultural goods between the two countries and at establishing common negotiating ground for the MTN.

Since 1982, U.S. trade representatives and representatives from other GATT parties, including the EC, Australia, and Canada, have participated in negotiations in the GATT Committee on Trade in Agriculture (CTA). This Committee was established at a GATT ministerial meeting to bring agriculture more fully into the multilateral trading system by improving the effectiveness of GATT rules, improving terms of access to markets, and bringing export competition under greater discipline. The CTA has issued a set of broad recommendations which will provide terms of reference for the agricultural negotiations in the next MTN.

On a bilateral basis, continuing talks are in progress between U.S. and EC trade representatives on resolving agricultural trade issues, including EC enlargement and disputes over agricultural export subsidies. On another front, the United States and Mexico have signed a bilateral agreement in which Mexico agrees to eliminate export subsidies and the United States agrees to apply the "injury test" in U.S. countervailing duty cases filed against Mexican products. The United States and Japan continue bilateral consultations on trade barriers affecting a range of U.S. agricultural exports to Japan, including beef, citrus, tobacco, wine, chocolate, and walnuts. These consultations resulted in a number of concessions from Japan, including an agreement to increase its quotas on high quality beef by 6.8 thousand tons per year for four years. USDA estimates that U.S. high quality beef exports to Japan will increase from 30.8 thousand tons in Japanese fiscal year 1983 to 58.4 thousand tons in 1987.

Other major agricultural exporting nations do share our belief in trade liberalization. Canada, Brazil, Argentina, Australia, and New Zealand have all voiced strong support at GATT ministerial meetings for the liberalization of agricultural trade and for bringing substantially all measures affecting trade in agriculture under more operationally effective GATT rules and disciplines. The Tokyo Summit communique assigns high priority to agricultural issues in the next round of multilateral trade negotiations.

[Written questions from Senator Hawkins and Secretary Thompson's answers thereto:]

Question 1. Can you prepare a description of current sugar cane production in the Caribbean? For the record, which countries are most dependent on sugar cane production? In light of the current world supply of sugar, what steps are being taken in these Caribbean nations to diversify their agriculture? Which commodities are they moving into? What is the likelihood that new fruit and vegetable production will be the end result?

Answer. Sugar and sugar cane production in Caribbean and Central American countries has remained relatively stable since the early 1970's, but the proportion supplied by each of the region's cane growing countries has changed considerably. During the last decade, production declined in the French- and English-speaking countries but increased in the Spanish-speaking countries. Cuba, the largest sugar and sugar cane producer in the Caribbean, now has the capacity to produce 7 to 8 million metric tons of raw sugar annually, and would like to produce more. Total production in the 27 designated Caribbean Basin Initiative countries, peaked in the early 1980's at about 3.8 million tons (raw sugar equivalent), but may fall to 3.2 million tons or less in 1986, as producers respond to low world prices and other incentives to diversify.

Sugar dependency remains significant in the Caribbean Basin, but it is not as high as some reports suggest. For example, 12 of the 27 CBI countries do not have any commercial sugar cane processing facilities whatsoever, and only 4 of the 15 sugar producing countries receive 20 percent or more of their export earnings from sugar sales (St. Kitts, Dominican Republic, Belize, and Guyana). Cuba is the most sugar dependent country (75-80 percent of export earnings). St. Kitts, the region's smallest commercial sugar producer, ranks second (60 percent). At least 5 of the CBI sugar producers receive less than 10 percent of their foreign exchange from exports of sugar. Sugar, however, remains a primary source of employment in all but a 2-3 of the 15 sugar countries.

Diversification of agriculture is slowly gaining momentum in the Caribbean, and most countries are currently planning and implementing diversification projects. To date, only the Dominican Republic, Belize, Honduras, Guatemala, Jamaica and Costa Rica appear to be having success, but they began the process at least 10 years ago, well before the CBI was initiated. At the present time the Dominican Republic is the only CBI country that appears to be deliberately diversifying out of sugar. The diversification and decline of sugar in the French- and English-speaking Caribbean occurred before the CBI was proposed in the early 1980's.

Rice, corn, sorghum, beans, fruits and vegetables are generally the first alternative crops planted. However, winter fruits and vegetables for both domestic and exports consumption are the easiest to get into and are receiving the most attention. They are also high risk crops. Since 1981, total annual U.S. imports of all "non-traditional" agricultural items from the 27 CBI countries increased about $50-70 million; less than 1 percent of total U.S. imports of "non-traditional" items, and only a fraction of 1 percent of total U.S. consumption. This does not mean, however, that the Caribbean will never be a threat to U.S. producers of selected staples in our diets, but Mexico is still our major foreign supplier of fruits and vegetables and the primary competitor of Caribbean exporters.

Caribbean fruit and vegetable production is expected to increase during the next 5-10 years, but so is the region's domestic demand. Furthermore, demand for Caribbean fruits and vegetables is also expected to expand in Europe and other traditional export markets of the Caribbean.

Question 2. Will you prepare, for the record, a description of current citrus production in Central and South America? I am especially interested in Brazil. What is the current amount of land in citrus production? What are the Department's projections for Brazilian citrus production over the next 10 years? Will you provide the Committee with estimates of Brazilian exports of frozen concentrated orange juice?

Answer. Citrus production in Latin America, according to statistics of the Food and Agricultural Organization, has increased from 5 to 6 million tons in the early 1960's to about 18 million in the 1980's (see graph). Over 80 percent of the citrus production is oranges. Traditionally, most citrus was sold as fresh fruit in the country where it was produced. However, since 1972, output increased rapidly, led by Brazilian orange production that was destined for processing into frozen concentrated orange juice for export.

Brazilian citrus area is difficult to estimate accurately because of the large number of people with just a few trees for fresh consumption.

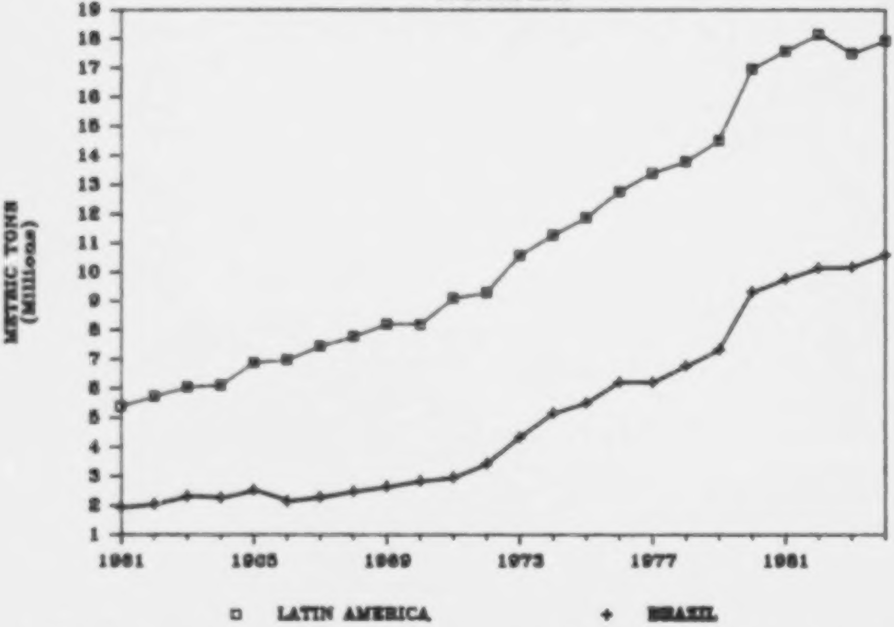
CURRENT AREA ESTIMATES FOR 1985/86

	1,000 hectares	
	Planted	Harvested
Oranges	665,000	565,000
Tangerines	27,000	26,000
Lemons	1,000	1,000
Other fresh citrus	14,000	14,000
Total	707,000	606,000

In 1986/87, the area planted to oranges is expected to increase by about 20,000 hectares. However, recent low prices for FCOJ are likely to slow future expansion.

USDA has no 10-year projections for Brazilian citrus. Total 1985/86 citrus production is estimated at 12.1 million tons. However, drought and less attractive prices are expected to reduce production to 11.4 million tons in 1986/87. Recent area expansion could provide the basis for increases in orange production over the next 5 years. However, low prices could result in an abandonment of selective picking and other management techniques that increase yields. Brazilian production of oranges from 1990 to 1995 will depend largely on world FCOJ prices for 1986–1990. World FCOJ prices are likely to remain low, unless freezes or changed economic incentives reduce competition from Florida.

In 1985/86, Brazil's FCOJ exports (65-degree brix) are expected to fall to 600,000 tons, from 726,000 the year before. Government set minimum export prices were high enough to discourage world demand for Brazilian FCOJ. In 1986/87, Brazil is expected to price its FCOJ more competitively, increasing exports to 725,000 tons. Barring production shortfalls in the United States, long-term growth of Brazilian FCOJ exports should be modest, depending largely on increased consumption in Europe. A chart is provided for the record.



CITRUS PRODUCTION

Source:F.A.O.

Question 3. With regard to fruit and vegetable production, what new areas are being developed for the production of these commodities in other parts of Latin and South America?

Answer. To date, expansion of fruit and vegetable acreage in the Caribbean Basin has been limited. Information is also scarce, but new fruit and vegetable projects have been initiated in Jamaica, the Dominican Republic, Belize, Honduras, Guatemala, the Bahamas, and Haiti. The failure rate among these new commercial scale projects remains high, and it appears that a total of only 5 to 10 thousand acres of new plantings may now be producing commercial fruit and vegetable crops for export in CBI countries. Within 2-3 years, another 5,000 acres currently under development may begin producing. However, it will probably be another 5-7 years before an additional 5 to 10 thousand acres of "new" fruit and vegetable land comes into production, as a result of the Caribbean Basin Initiative. Most of the current land use changes resulting from diversification, are expected to end up in grain, oilseed, or tree crops, and not in fruits and vegetables for export.

Question 4. With regard to Mexico, will you provide the Committee with a description of winter vegetable production in Mexico? What is the current level of production? What percentage of that production is exported to the United States? What percentage is exported to other nations? What percentage is consumed domestically? Can you prepare a regional breakdown of vegetable and fruit production in Mexico?

Answer. Vegetables are grown throughout Mexico but most of the production for export is concentrated in the Pacific Northwest, primarily in the states of Sinaloa, Sonora, and Baja California. The crops are grown in coastal river valleys under irrigation. Tomatoes are the dominant winter vegetable crop, although output of most of the other crops has risen considerably over the past several years. Citrus fruit—primarily oranges and limes—are grown in the northeastern states of Nuevo Leon and Tamaulipas. Other fruits are produced in the semi-tropical zones of the Mexican Gulf region.

Much of the vegetable production for export has been promoted by U.S. financing and technology. Production inputs, such as seeds, are imported from the United States. Growers receive indirect support from the Mexican Government in the form of low irrigation fees, subsidized railroad transportation, and, until recently, cheap petrochemical production inputs such as nitrogen fertilizers and diesel fuel. Government-run railroads tend to be costly because of inefficiencies and delays which may account for the fact that only about one-third of vegetable exports to the United States are by rail.

About half of the vegetable crop grown in the Northwest is exported (compared to about one-fourth of the total vegetable crop). The bulk of these exports enter the United States during the October-June marketing season. They compete directly with Florida production, primarily in the mid-western states. Minor quantities of winter vegetables are exported to other countries, primarily Canada. Only about 3-4 percent of tomato exports, for example, go to markets other than the United States.

MEXICO: WINTER VEGETABLE PRODUCTION AND EXPORTS [1]

	Hectares		1,000 metric tons			Percent	
	Total area	Sinaloa area	Total production	Total exports	U.S. imports	Export share of production	U.S. share of exports
Tomatoes:							
1980-81	69,472	14,891	1,320	251	242	19.02	96.41
1981-82	61,838	13,775	1.074	264	248	24.58	93.94
1982-83	56,532	17,342	1,312	322	315	24,54	97.83
1983-84	65,068	19,005	1,422	369	377	25.95	100.00
1984-85	98,963	18,003	1,549	304	369	19.63	100.00
Peppers:							
1980-81	60,652	4,380	531	50	NA	9.42	0.00
1981-82	45,398	3,523	405	75	74	18.52	98.67
1982-83	66,292	4,266	554	61	62	11.01	100.00
1983-84	51,720	6,733	443	89	91	20.09	100.00
1984-85	42,832	7,488	386	98	97	25.39	98.98
Cucumbers:							
1980-81	11,099	5,006	211	127	143	60.19	100.00
1981-82	5,464	4,077	73	119	131	100.00	100.00
1982-83	9,461	6,932	191	132	156	69.11	100.00
1983-84	12,898	9,872	250	141	166	56.40	100.00
1984-85	16,749	8,345	279	137	163	49.10	100.00
Squash:							
1980-81	NA	2,514	NA	17	NA	NA	0.00
1981-82	NA	2,828	NA	47	44	NA	93.62
1982-83	19,297	3,610	124	55	51	44.35	92.73
1983-84	15,500	4,416	65	63	58	96.92	92.06
1984-85	16,319	4,201	186	35	51	18.82	100.00
Eggplant:							
1980-81	782	567	20	15	NA	75.00	0.00
1981-82	539	544	14	15	15	100.00	100.00
1982-83	568	722	12	17	16	100.00	94.12
1983-84	650	903	15	18	18	100.00	100.00
1984-85	823	676	2	15	9	100.00	60.00
Green beans:							
1980-81	40,446	1,440	83	7	NA	8.43	0.00
1981-82	32,233	921	35	7	7	20.00	100.00
1982-83	39,078	1,417	51	9	9	17.65	100.00
1983-84	45,426	1.928	53	10	10	18.87	100.00
1984-85	29,822	1,738	58	11	10	18.97	90.91

[1] Different sources were used which resulted in numbers not always comparable.

Senator **Boschwitz**. Well, Mr. Avery, we are glad that you are here, and incidentally, I invite you—as I invite all of the witnesses—to send me things that they write or that they see that they feel that members of this committee should read, and I would be very happy to read it.

Please proceed.

STATEMENT OF DENNIS T. AVERY, SENIOR AGRICULTURAL ANALYST, BUREAU OF INTELLIGENCE AND RESEARCH, U.S. DEPARTMENT OF STATE

Mr. AVERY. Thank you very much, Senator.

With your permission, I have a fairly long statement, and I would like to go through some of the highlights of it in the actual verbal presentation.[7]

Senator BOSCHWITZ. Fine. I very often find that among witnesses that there is some repetition. So, I do say that in the event that there is some repetition of Dr. Thompson's statement.

Mr. AVERY. Since 1980, I have been an agricultural analyst for the Department of State, devoting most of my efforts to following agricultural developments in the 160 or so other countries of the world. I make this statement today as somewhat of an expert on world agricultural productivity rather than offering policy recommendations, and certainly I represent no State Department policy positions.

American agriculture is in crisis, but very few U.S. farmers realize that the entire agricultural world is enveloped in the same crisis. Rapid increases in farm output are being triggered primarily by breakthroughs in technology—plant genetics, new farming systems, better pest control, and many other knowledge-based improvements. Production is also being stimulated by more supportive farm policies in the developing countries and by farm subsidies in the developed countries.

Commercially, the increase in farm output is confronting sluggish growth in demand. More and more markets for farm products are "mature"—the populations are already well-fed and well-clothed, and consumption will not increase very much at any price.

The competition among the world's farmers is becoming broader and fiercer than ever before and increasingly being resolved by governments in favor of their domestic farmers. Increased farm production potential is thus producing a corollary trend toward national food self-sufficiency.

A particular problem recently is that the developed countries have tended to underestimate the agricultural progress in the Third World. We are all familiar with the limits-to-growth projections of the Club of Rome and others which were apparently based on a short-term slackening in Third World farm productivity growth between 1970 and 1974.

LDC farm output rose only 8 percent in those 4 years, compared with a growth rate of about 2½ percent during the previous 25 years. Almost before the gloomy projections could be rushed into print, however, LDC farm output began to rise strongly again—by 5 percent in 1975; 3 percent annually through the late 1970's; and in the 1980's, the developing countries have increased their farm output at basically a phenomenal rate of 4.4 percent annually.

Meanwhile, the pace of agricultural increase in the affluent countries has slackened to 1½ percent per year—and even that, I might point out, is probably greater than the increase in demand for farm products in those countries—and farm programs have kept the U.S. rate of increase to 0.3 percent per year.

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[7] See p. 277 for the prepared statement of Mr. Avery.

We may now be in the midst of a Third World agricultural revolution, this time in plant genetics. The generally—accepted definition of the First World agricultural revolution was mechanization in the mid-1800's, and in the 1930's, we had a second revolution based on petroleum, if you will, with the lightweight gasoline engine, and commercial fertilizer.

But the first big step forward in plant genetics was hybrid corn in the 1930's, and the United States was lucky because corn was open pollinated and easy to hybridize, and we could grow lots of it. The rest of the world did not begin to get much from plant genetics until the 1960's. But the real "green revolution" began in the 1960's; it was not limited to two wheat and rice varieties, and that "green revolution" has not stopped yet.

Europe's grain yields averaged about 1.4 metric tons per hectare in the 1930's; 1.5 in the 1950's, and then jumped to 2.6 in the 1960's, and 4.5 tons per hectare in the 1980's.

The engines of growth for those yields were high-yielding barley and wheat varieties, backed up by intensive use of fertilizer and chemicals.

Senator BOSCHWITZ. They have some "10-ton clubs."

Mr. AVERY. Oh, yes. These are national averages; they do not represent the best of either Europe or the United States.

World rice yields averaged 1.2 tons per hectare in the 1930's, edged up to only 1.5 tons in the mid-1950's. Today, the average is 3.2 tons, and it is still rising. The latest Third World rice variety, bred by the International Rice Research Institute in the Philippines, needs only two-thirds as much fertilizer; it has much more bred-in pest protection, so it needs only one-tenth as much chemical pest protection as the previous high-yielding varieties.

South American farm production rose 31 percent between 1974 and 1984. High-yielding wheat and corn varieties, new food bean varieties, which tripled yields in food beans. There is another round of high-yielding corn varieties rippling through the world today. In Guatemala, where the average national corn yield is 1.5 tons per hectare, these new latest varieties are producing as much as 8 tons. And I saw them doubling yields in West Africa a year ago.

Even the deserts can benefit from new plant genetics. I spoke yesterday with a researcher in the Conservation Research Center in Idaho run by the Department of Agriculture, and found that a crossbred Sudan sorghum grass releases so much carbon dioxide and acid from its root system that it literally changes the physical structure of the high-sodium soils typical of desert and semi-desert areas. The grass produces 20 tons of forage, even as it is renovating the soils, and this apparently has major potential for increasing yields in such areas as the Middle East, North Africa, Egypt, and Pakistan, in the years ahead.

Hybridization is becoming a story in itself. For 30 years, we basically had only corn and sorghum as hybrids of the world's important crop plants. Two years ago, U.S. seed companies released the first practical wheat hybrids, with yield increases of 20 to 25 percent. This year, French seed catalogs offer a hybrid wheat, and I must assume that the rest of the world's wheat breeders are hot on the same trail.

The long-term yield potential of hybrid wheat is as great as that of hybrid corn. We can thus expect world wheat to increase at least 25 percent within the decade and to double within two decades—and I may be conservative on that projection.

Hybrid cotton is now a reality, with yield increases of roughly 25 percent. The Chinese have developed hybrid rice, and 10 or 15 percent of their rice acreage currently is hybrid varieties.

The Canadians have hybridized rapeseed. The highest-yielding small grain at the International Center in Mexico recently has been triticale, a hybrid of wheat and rye. Researchers think they are close to a hybrid alfalfa.

We continue to make progress with hybrid corn, particularly in the area of short-season varieties, which in the last 10 years alone have moved the American border of the American Corn Belt 250 miles—into central Canada.

East Germany has never before grown corn. They have 25,000 acres of field test plantings this year, in a new corn hybrid which they got from Hungary. They expect it will permit them to grow enough corn cob silage to displace a lot of the corn that they still import.

The Soviet Union is also looking at these same hybrids to increase feed production farther north than they have been able to grow corn in the past.

The ripple effect of farm technology——

Senator BOSCHWITZ. I notice there that you say "north of Kiev." Would you just comment for a moment on what impact you think, if you have looked at the outgrowth of the Chernobyl accident, what the impact of that will be?

Mr. AVERY. I would be happy to, Senator. I see no reason to believe that the Chernobyl was anything more than a very local phenomenon as far as Soviet agriculture is concerned. There was a short-term impact, obviously, on produce and dairy milk production, with potential radioactive contamination at some level.

But in terms of major impact, that was limited to a relatively short radius around the accident itself. The Soviets themselves have said that they have no intention of increasing their agricultural imports because of the accident, and I would expect they would want very much to hold to that projection.

Senator BOSCHWITZ. Thank you.

Mr. AVERY. The ripple effect of new technology is further demonstrated by palm oil. In the 1960's, West Africa planted large plantations of high-yielding oil palm. In the 1970's. Malaysia and Indonesia imported the oil palm and also the Cameroon weevil that helps to pollinate that tree. Lately they have used sophisticated tissue culture experiments to raise the oil content, I gather on the order of raising it from 20 percent to 30 percent in the palm kernel. These latest varieties are now being smuggled into Thailand, and perhaps more important, they are being bought for planting in Colombia. I think we can expect big increases in palm oil production from Latin America as those high-yielding palm oil varieties spread through the appropriate areas in Latin America.

Along with the virtual revolution in plant genetics, the other types of technologies available to farmers around the world are continuing to progress. The Indian farmers have a new farming system that lets them crop millions of acres of black, sticky Vertisol soils. In the past they were unable to farm these because they crusted over during the dry season, too hard for hand implements to break through, and then with the first rain turned into a bottomless goo.

With this new farming system, they are cropping those acres and in some cases double-cropping them.

Turkey is building three big dams on the Upper Euphrates River that will irrigate as much cropland as we plant in Nebraska, and that land is ideally located to serve Middle Eastern markets.

Spain and Portugal, as they enter the European Community, are adapting the Australian ley system, which uses a grain—legume-grain rotation instead of a grain-fallow rotation. They expected to increase the productivity of something like 35 million semiarid acres by 35 to 40 percent.

The U.S. Department of Agriculture has developed the world's first viral insecticide, which attacks only the Helio, this family of insects—the tomato fruitworm, the corn earworm, and tobacco budworm—and it has virtually no environmental side effects. Isoacids are a whole new class of dairy feed additives, and they cut feed costs, or raise milk output, 10 percent per cow. They have been introduced very recently to the market in the United States, and I again presume that they will ripple around the world.

Even Africa is not being left out of this progress. Alley cropping, which intersperses crops with rows of leguminous trees has now been proven as the first really stable, permanent land use system ever available to much of Africa's agriculture.

This is enormously important because Africa probably plants no more than 20 percent of its arable land in any given year. With alley cropping, many African regions will be able to not only feed five times as many families as currently they support, but to provide their fuelwood and timber needs in the bargain.

In addition, Africa may well be on the verge of a plant genetics revolution. It looks as though a whole family of new hybrid sorghums will offer something close to "green revolution" potential for large parts of Africa in the very near future. In addition, new farming systems and other new crop varieties are being developed.

There is a fascinating experiment in Rwanda which may lead to progress against the tsetse fly, which prevents farming in huge tracts of Africa. Tsetse flies, in search of shade, are lured into traps, sterilized with a chemical, and since tsetse flies mate repeatedly, the fact that this chemosterilant can be passed on from one fly to another gives the potential at least for a near geometric progression of eradication.

Another important factor which is increasing world farm productivity is better policies. The U.S. model for agriculture is increasingly being adopted in other countries. Basically, this means relatively small, intensively managed farms offered price incentives and good agricultural research and efficiently supplied inputs. Pakistan did not get much benefit from the green revolution until they offered farmers the price incentives which stimulated them to adopt the new seeds and new practices.

China has offered perhaps the most dramatic demonstration of the power of agricultural policy in modern history. They scrapped their big communal farms in 1979, leased the land back to small farmers, and raised their prices by 25 percent. The output of the world's largest and perhaps its most primitive agriculture rose an astounding 50 percent in 6 years.

And then in the future, we have genetic engineering. I do not talk a great deal about genetic engineering, because less exotic agricultural improvements have been powerful enough to bring on the current farm surpluses. But genetic engineering has given us already the world's first fully—safe vaccine against foot-and-mouth disease. The Food and Drug Administration is testing a bovine growth hormone which is produced by genetically engineered bacteria and which apparently has enormous potential to increase milk production per cow.

In the future, we may have such dramatic breakthroughs as salt-tolerant rice for coastal marshes, or soil bacteria which produce ammonia fertilizer right in the root zones of the crops. It is unclear at the moment exactly what genetic engineering will produce and when, but I do not think the science community has any doubt that it has an enormous amount to offer.

I think it is important to note that modern farm technology of this sort generates enormous economic power, primarily because it reduces per unit costs of production. A new seed that doubles yields cuts land costs in half—that is, land costs per unit of output—and land preparation costs per unit of output similarly in half. It nearly cuts labor costs in half. And by making better use of fertilizer, seeds can sharply cut the fertilizer costs per unit of output.

It is for this reason that I conclude that all of the cost targets in world agriculture are now moving, and moving more rapidly than they have in the past, and making it much more difficult for us to talk about comparative advantages among farmers and among countries.

Senator BOSCHWITZ. Excuse me. I noticed that you went rapidly over the section of your statement entitled, "Defeating Hunger," and I wonder if you would go back to that?

Mr. AVERY. I surely will, and I had intended to do exactly that.

Senator BOSCHWITZ. All right.

Mr. AVERY. I think it seems clear now that the developing countries will be able to meet most of their increasing food needs from their own production, certainly in terms of providing basic diets. Secretary Thompson talked about the potential demand for protein foods in those countries, which I agree is very large, and I will talk a bit about that later on.

I think it is important to note that the World Bank has recently estimated only 6 percent of the world's population is at physical risk due to inadequate food supplies. I think those numbers are too pessimistic, because I think we are significantly underestimating the food production of developing countries, and I think we have overestimated the caloric requirements of some small but healthy populations in other countries. As a result, the actual number may be as low as 3 percent. It is certainly the lowest percentage in the history of the world at risk from inadequate food supplies.

If the current farm productivity trends continue in the developing world and should begin to include Africa, which I think is certainly possible, then the absolute numbers of people at risk from hunger will begin to shrink as well.

Senator BOSCHWITZ. Are you saying that the statement that I often see that a certain large percentage, a quarter or a third of the world's people go to bed hungry each night is inaccurate?

Mr. AVERY. I think that statement is inaccurate, yes.

Senator BOSCHWITZ. And you think that the true figure is closer to——

Mr. AVERY. My personal estimate is 3 percent, but it is not something on which I would stake my entire career.

Senator BOSCHWITZ. So 3 percent of the world——

Mr. AVERY. That 3 percent of the world's current population is at physical risk due to inadequate food supplies.

Senator BOSCHWITZ. Though more may go to bed hungry.

Mr. AVERY. Certainly more go to bed feeling that they would like to have more food, and would have more energy if they had more food. The World Bank estimate on that, I believe, is 12 percent.

The trend, I think, is the crucially important thing here, and the trends have been very favorable in the last decade for reducing world hunger—despite the emotional impression that we all retain from the big drought in Africa 2 years ago.

Senator BOSCHWITZ. As you know, that certainly is not the common feeling or the common knowledge, so to speak, as evidenced by the Hands Across America which I do not want to in any way imply was not addressing a problem which truly is there——

Mr. AVERY. Well, certainly, the Hands Across America Program was an outpouring of concern and a desire to help people in need. It was not necessarily based on a cold, sobering, analytic look at who is hungry and where they are and why they are hungry.

Senator BOSCHWITZ. Thank you.

Go ahead.

Mr. AVERY. There has been, as a result of all this increase in agricultural productivity, a self-sufficiency trend in the world during the 1980's. Just in the 3 years from 1982–83 through 1985–86, world production of food grain rose 8½ percent, and world food grain imports dropped 7 percent, and those two numbers are not unrelated.

The sales by the traditional non-U.S. exporters have remained basically flat in this period, and those of the United States actually declined. The production increases came from some places that we have not normally thought of, such as Eastern Europe, Finland, and Saudi Arabia, countries of that sort.

We have an increase in the number of markets that are already mature. North America and Western Europe certainly fit into the "mature" category, and they are growing only slowly.

The Soviet Union has provided most of the increase in world farm imports in the last decade, and the Soviet Union is now a nearly mature market. They have one last gap to fill, roughly 2 million tons a year of protein feed for their livestock, and after that, they may be a mature market.

The big populations of the developing world are growing rapidly. They will eagerly seek to improve their diets. But effective demand in countires like India and China may not grow much more rapidly than their domestic agricultural output, depending again on their relative rates of economic growth and agricultural output increase.

We have also seen farm subsidies displace imports, most dramatically in the European Community, which has shifted from being a net grain importer of 20 million tons per year to a net grain exporter of 30 million tons per year in the last decade.

Now, with world markets saturated, the EC is working to displace as much as possible of its remaining farm imports. The French have raised their self-sufficiency in oilseed and pulse crops from roughly 15 to 30 percent in the last decade. They now have higher yielding rapeseed. They are working on low-acid versions of those higher yielding rapeseeds.

They have new sunflower seed varieties which can be planted as far north as the Paris basin, in contrast with previous varieties, which were limited to their southern crop regions.

They have increased yields of pulse crops by more than 50 percent in the last several years. They are looking at dehulling of rapeseed——

Senator BOSCHWITZ. What is a pulse crop?

Mr. AVERY. Horse beans, field beans, legume crops of that sort that can be used quite effectively in some livestock rations.

Senator BOSCHWITZ. I know that a member of the Agriculture Committee should not ask, but what are horse beans?

Mr. AVERY. Now you are asking for a level of detail that exceeds my knowledge, Senator.

They are hoping that in the future, they will be able to subsitute more rapeseed meal for soybean meal in hog and poultry rations if they dehull the rapeseed, use the hulls in cattle rations, and thus reduce the fiber content of the rapemeal so that it is a more efficient feed substitute for soymeal.

All of this has helped to produce a farm surplus dilemma for the affluent countries. If the farmers of the developed countries are not going to be called upon to feed the hungry Third World, if the farm surpluses of the affluent countries really are surplus; if new farm technology will continue to increase farm output capacity at a rapid rate, then the farm subsidy and trade policies of the affluent countries may be unable to survive in their present forms.

The world reached an agricultural crisis point last year when the Congress of the United States passed the 1985 farm law. As a result of that law, world prices for farm products in the upcoming year will be at least 35 percent lower in real terms than year-earlier prices. That is a combination both of the weakening dollar and of the lower resale price, lower export sale prices, for American commodities.

If the farm subsidy structures of the developed countries are forced to change by these external realities, I think it is comforting to note that the farm trade crisis probably need not produce major structural damages for the agricultures of those developed countries.

Part of the reason for that is that the farm subsidies of the developed countries do not seem to have produced much prosperity for their farmers in recent years. The price supports and import protections have encouraged higher land values that quickly become farm costs instead of windfall profits. They have also stimulated heavier use of chemical and other purchased inputs, raising cost of production while other farmers' costs of production were declining.

The farm trade barriers necessary to protect these farm subsidies have been drawing more trade retaliation in recent years.

It is important, I think, to note that farmer numbers have declined rapidly despite the subsidies. With farm prices guaranteed, aggressive commercial farmers in all of these countries have been able to pencil in their costs against the Government support prices, take those figures to their local banks, and get loans to buy out their less aggressive neighbors.

The farmer numbers in the United States, France, and the Soviet Union currently are declining at roughly the same rate, despite widely different farm support structures.

Senator BOSCHWITZ. It is very interesting to note that many people who support the idea of higher support prices in order to preserve the family farm are in reality creating the result that you point out, that the more aggressive neighbors find it is a windfall and can buy out and lessen and decline the numbers of family farms.

Mr. AVERY. Well, I would point out that there are still lots of small farms in both the Ozarks and Bavaria, but the more favored agricultural areas are increasingly dominated by large commercial farmers who have bought their large tracts of land with bank loans underwritten by Government price supports.

The increasing output of the world's farms, and the sluggish demand growth have rapidly escalated farm subsidy costs. The subsidies are now costing consumers and taxpayers in the affluent countries well over $100 billion annually—again, a personal guess would be roughly $125 million.

And if all of the OECD nations agreed to phase out their farm subsidies simultaneously, the likely result would be more and smaller family farms, focused more directly on lower production costs and less on maximum yields.

If product prices and land values were lower, farmers would apply significantly less fertilizer. They would tolerate more weeds and insects before hauling out their spray rigs. They would depend more on intensive management practices such as crop rotation, and more attention to matching soil type with crops. There would be fewer big farms leveraged with bank loans and more family-sized farms able to bear the risk of commodity price changes.

Production in these countries would fall by an unknown percentage, but per unit production costs would probably fall more or less accordingly.

It does seem likely that the national governments of the OECD countries could design and implement programs that would ease the transition from the kinds of programs that we have had in the past to programs more in line with the emerging reality of rapidly rising farm productivity across the world.

Whatever farm and farm trade policies the United States chooses to follow in the years ahead, there is virtually no question that the American farmers will have to contend with rapid technological change and rising potential production from farmers in other countries.

Costwise, if we are examining the U.S. competitive position, I would have to say that our farmland values are relatively high, but U.S. marketing costs are relatively low. And the infrastructure that surrounds American farms is the envy of farmers in the rest of the world, and while farm productivity itself is becoming cheaper and cheaper as the weeks go by, the cost of developing such an infrastructure is not declining.

Thank you, Senator.

Senator BOSCHWITZ. That is a very interesting final comment, Mr. Avery. I have a note from Dr. Thompson's testimony about the infrastructure. Perhaps we have made a mistake in this series of hearings, that we should have a hearing about agricultural infrastructure and how they compare. While many people on this committee and other places feel that their primary obligation is to inform—and certainly I think that is part of our primary obligation—I think that it also extends to the agricultural infrastructure that gives us an enormous advantage in this country.

This is not a statement that all members of this committee would agree to—some of them would bridle when you say that, "If all OECD nations agreed to phase out their farm subsidies simultaneously, the likely result will be more and smaller family farms, focusing more directly on lower production costs rather than on maximum yields," and you say that things would get better if we would phase out our farm subsidies simultaneously.

Some of our members here would rise and practically jump across the table at you. But I think you are right.

Mr. AVERY. I think it is interesting to speculate——

Senator WILSON. It is a good thing that the ones that are here are the ones that are here. [Laughter.]

Mr. AVERY. I think it is interesting to speculate that if the increased world price structure that Dr. Thompson suggested, with a reform of the farm subsidy structures of the affluent countries, produced both higher prices and a trend toward more and smaller family farms, the picture is quite different than some people have suggested.

Senator BOSCHWITZ. Senator Wilson, I make the same statement that I made at the end of Dr. Thompson's remarks, that unless you have some questions—and again, I do not know what your timeframe is; I am so pleased that you are here, because we are getting some very good testimony.

Senator WILSON. Thank you, Mr. Chairman.

I will not abuse the privilege, but I was struck by one point in Mr. Avery's presentation—I was struck by several, but one in particular. At page 9, he has identified the cost of European Economic Community farm subsidies at somewhere between $50 and $60 billion. I am fascinated by that because the highest estimate that I had heard before put the figure at about $20 billion.

So, I would be very much interested in how he has arrived at that figure and whether that is consistent with the U.S. Department of Agriculture's estimate.

Mr. AVERY. The $20 billion number that is usually heard is the actual government outlay by the European Community. The $50 to

$60 billion number is an Australian Government study conclusion, and it includes the higher consumer food costs in the European Community which result from the common agricultural policy.

Senator WILSON. Well, I think that is a fascinating point. I do not question it, either. I think that maybe it is a little known and routinely ignored fact.

Mr. AVERY. That number is about to rise. I believe that the lower U.S. export prices in the next couple of years are going to raise the export subsidy costs of the European Community very likely by $3 billion a year, and of course, the gap between European food prices and world food prices will widen again, which would widen the consumer aspect of the number.

Senator WILSON. A fascinating point.

Senator BOSCHWITZ. I thought that the amount that you referred to there, which the European Community as a group pays and what each individual nation pays to its farmers was less than $50 to $60 billion. I understand that you say this is an additional cost the consumer must bear as well, but the number still is up there in the middle thirties, isn't it?

Mr. AVERY. Do you mean between the EC and the national?

Senator BOSCHWITZ. Yes.

Mr. AVERY. I think that is correct.

Senator BOSCHWITZ. And you shake your head "yes".

Dr. THOMPSON. Yes.

Senator BOSCHWITZ. Well, with your permission, then, Senator Wilson, we will go on to our next witness, Willard Sparks, president of Sparks Commodities, with whom I have had numerous conversations.

Please proceed, Willard.

STATEMENT OF WILLARD R. SPARKS, PRESIDENT, SPARKS COMMODITIES, INC., MEMPHIS, TN

Mr. SPARKS. Thank you very much, Senator. I appreciate the opportunity to share some remarks with you today.[8]

I think we would like to take a little bit of a different tack, although along the same lines. I think it is important that the kind of policies that were established in the 1985 Farm Act are able to continue.

We have tried to break down the outlook for the short term and the long term, and what happens if we continue these agricultural policies that are now in existence, and what happens if we move back toward more mandatory controls or market quotas, that were suggested in some of the alternative legislation.

We think our paper will tend to support that if we stay with these 1985-type programs, that we can put agriculture back on the growth path.

So mainly, we are going to look at those two alternatives today. When you start looking ahead 15 years, it is rather difficult to be very precise, but I will suggest some fundamental conclusions that will show us that currently, we are headed in the right direction to solve some of our agriculture problems in the United States.

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[8] See p. 285 for the prepared statement of Mr. Sparks.

There are some interesting trends that have developed in the last 10, 20, or 30 years, and I think looking at those trends and seeing how they developed, we can maybe see whether we are on the right track or whether we should change it.

We think that if you continue the current act, as I said, the 1985 act, that we probably can increase grain trade. Today, I am going to deal primarily with grain exports, not cotton or oilseed, but primarily with corn, wheat, sorghum, and barley exports around the world. We can, by the early nineties, be back to the level that we were at, in the late seventies and early eighties. Back up to the 110-million-ton level that we had in the early 1980's and the late 1970's.

Then if those same policies can continue, we think it is even possible that we maybe can double or almost double exports, in the nineties.

Those are some pretty bold statements, and we did not really know when we did this study how they were going to come out, so this has come as a little bit of a surprise to us, as I say, that these came out this large. But still, we think these conclusions are based on some numbers that make sense, and that if you look ahead the next few years, we could redesign the agricultural policy that would keep these long-term things in proportion.

Our paper is going to deal primarily with non-United States; we are going to look at the world and take the United States out of it, so all our production and consumption figures, are really everything but the United States. We have left the United States as the residual supplier and assumed that the deficit production in the non-U.S. world will be met by U.S. exports. That has been the way the world has worked in the last few years, because of our agriculture policy. There may be some things changing, like with cotton and rice, because of the new farm legislation, but primarily, we are going to let the United States be the residual supplier and see what is needed.

We have seen a continued yield increase, and we have also seen a continued acreage improvement. Although some very interesting things are happening in this acreage outside the United States—we had the big jump up in the 1970's as a result of the doubling of prices. But since then, acreage has really not increased very much, and in some places has declined. We will look at that in a little detail later.

And the yield increases, as Mr. Avery pointed out, continue to take place. We think a lot of that is stimulated by price.

We tried to break production into its two factors—a look at acreage around the world, and then a look at yields, put the two back together and see how that production number fits into what we project consumption under the two price scenarios.

Another very, very important thing that we have to, I think, is tie the capacity of this country in with the other countries, so we do not just start producing and dumping on the world, but we try to have a policy that is consistent, that will bring along the surplus producers of the world and the deficit producers of the world so that everybody has an indication of where they may go.

I think with the policy we had thus far in the eighties of relatively higher prices, the world did not really believe that we were going to lower prices—and the world still does not really believe it. Or, it has not yet sunk in, I should say, that U.S. prices have really been lowered, and the umbrella that we have been holding over the world is not going to be there.

So as we look ahead and look at what has happened to agriculture in the last few years, we see that we have really lost a lot of our credibility.

Another important factor in protecting U.S. exports is the reliability of the United States as a supplier.

As we start building up our demand base, and we try to convince the less-developed countries of the world that they should be putting their food demands in our back pockets, so to speak, and they should be depending on us to be a supplier, we have got to somehow convince them that if we get into a shortage period for some unknown reason, that they can still depend on the United States to be a supplier. And this bit of having embargoes and not allowing us to continue to supply in periods when we thought there might be a shortage has certainly gone a long way to encourage some of the decline in exports and some of the decline in credibility that the United States has seen in the last few years.

So I think it is really important that the Congress—I am not really following the text, Senator, but I will in a minute——

Senator BOSCHWITZ. Tell me when you do.

Mr. SPARKS [continuing]. All right—as the Congress and the administration, I think it is really important, as I said, that we try to develop these relationships and let the world know as we move into the late eighties and nineties that we are going to be a supplier, and if they want to place their livelihood in our export availability, that we are going to be there to supply it.

Let us just go back. In the last 4 or 5 years, since the 1981 Farm Act was enacted, basically, as I said earlier, we have been holding an umbrella over the rest of the world. This has allowed the rest of the world really to increase their supplies and increase the surpluses around the world. These surplus countries have benefited directly, without really incurring much cost. The United States has borne the cost by diverting acreages, holding prices up, and the rest of the world has benefited, like China, Argentina, Australia—they have continued to export, and they have not really had to suffer the cost that our Government has had to suffer due to large subsidies.

But as we passed the act of 1985, it is very clear that we are sending a statement to these surplus-producing countries that the United States is not going to subsidize their agricultural economies any longer by supporting prices at above equilibrium levels; and that, if they want to maintain revenues for their producers, they need to begin to pay their full share of the cost.

This, as you know, is a major change in commodity policy direction that we have had. Other surplus countries did not believe, as I said earlier, that this change would occur, and only time and U.S. determination to follow this set course will convince them that in fact, a change is really taking place.

We are currently in the midst of a transition phase of U.S. policy. I heard earlier a lot of comments that even the 1985 Farm Act is not working; exports do not look very good. But we really have not given the world a chance yet. We are still living somewhat under the 1981 act.

So let us look again and break this thing down, as I said earlier. What if we take what we could call the "uncompetitive" outlook, or the scenario where prices are high—and I just use the numbers that were in Senator Harkin's bill last year, of $3.60 corn, $5 wheat, 88-cent cotton, and $9 soybeans. And what would happen if this kind of farm bill is passed in the next few years? As I said, we still have some people willing to bring this up in the various committee hearings, and we still hear comments that we need to go back to a very high loan-type, mandatory control situation.

Then, in the other scenario we have the 1985 act, which promises lower prices, more competitive—get the price competitive and see what happens; buyback demand. Where can we really go in the next few years in that type of situation?

Our attempt to quantify these two scenarios is shown in some detail in the appendix, but I am going to try to summarize these two and see just what would happen.

Under the high-price scenario, we conclude that yields would continue to expand at a very rapid rate. Mr. Avery mentioned the new technology and so on. If you had $9 soybeans, 88-cent cotton, and $5 wheat, the world would produce at an excessive rate. We believe that that would virtually destroy U.S. exports, and even by 1990, that we would have very, very small exports, and by the end of the decade, we would be exporting nothing.

So that, we think, is very——

Senator Boschwitz. We would be importing.

Mr. Sparks. Well, we would be importing if we did not have barriers to stop the imports, certainly. Actually, in our analysis, we actually come up as a net importer.

Senator Boschwitz. What would happen, though, if let us say we adopted the European model, and we had the high domestic prices and then the low international prices for exports.

Mr. Sparks. Well, we would have some reduction in U.S. consumption. When you look at the cost to the consumer—and this is one of the things we often do not look at when we look at the cost of the farm bill, and we say we are spending $20 billion or whatever the number comes out to be, but we do not look at what we are doing to the domestic economy. I mean, to compare ours with the Europeans, where they spend their money for export subsidies, and we are spending ours here so that the domestic consumer and the exporter all buy at the same price. We have made some estimates just on meat alone, dollars that consumers spend on meat consumption, the consumer will save roughly $7 billion a year with the 1985 Farm Act versus the high loan situation, because your cost of production of meat is almost 1-to-1 to the grain price.

So, if the livestock industry buy $3.60 corn and $5 wheat versus $1.90 corn, it ends up passing on to the consumer $7 to $10 billion, very easily. So, though we are spending $20 billion for all of agriculture, the grain part of that is much closer to $10 or $11 billion, and the consumer will spend more than that just on the meat purchases. So the meat purchase alone would offset the cost of the farm bill to the consumer.

I think the standard of living would be lower if we go to higher prices, fewer people would be able to afford the food in the United States. Cost of living would increase tremendously. There would be all kinds of side effects to the high price grain policy like the Common Market has, but we do not have with the 1985 act. It is mostly tied back to the consumer, where you are affecting 240 million people rather than 2 million people.

So in the rest of our analysis here, if we assume this relatively competitive situation that exists today, and we hold this out, as I say, by 1990, we think we can have exports back up to 114 million tons, which is about where we were in the late seventies and early eighties.

This demand for U.S. grain imports basically gives an increase in consumption outside the United States of approximately 2.4 percent per year—which was about the same as we saw in 1980–84, but lower than we saw in the seventies. In production outside the United States, we expect an increase of roughly 2.2 percent, and that increased something over 3 percent in the early eighties, primarily as a result of the very high prices and very large yield increases that were stimulated.

This slowdown in world production, we think, is primarily the result of this continuing stability of acreage around the world. We have seen very, very low increase in acreage around the world in the last 10 years, and in fact, all the increase in production has been primarily from yield increases, with a big share coming during the early eighties.

So with this competitive price situation, we think the non-U.S. acreage in the world will continue to be level—we have some charts in the back that show that very clearly——

Senator BOSCHWITZ. If I may interrupt you for a moment—I believe, Mr. Avery, that you said that there are 125 million acres in Brazil that they want to put into production.

Mr. AVERY. Actually, they are bringing those in, Senator. They have a few roads going in. The land is selling as low as $25 an acre.

Mr. SPARKS. There is plenty of land in the world; it is just a matter of price. And at today's prices, and the competitive prices that exist in the world, without subsidies, without $10 soybeans, it gets back to what Dennis said about infrastructure.

Granted, you have land at $25 an acre, but when it costs you $2 a bushel to haul the soybeans to the port, it gets rather uncompetitive, when we can move soybeans from Chicago to New Orleans for 18 cents a bushel.

Senator BOSCHWITZ. I read an article in Foreign Affairs some time ago where the writer said that it costs the Brazilians six or seven times as much to get its products to port than it does our farmers.

Mr. SPARKS. At least that much or more. Maybe Dr. Thompson has some better numbers on the average freight costs. I would think the average export costs of moving grain to the port—just grain, not others—even from the farms is less than 25 cents a bushel on the average. Maybe you have got a little more handling and other costs but once it leaves for the port, it does not cost much.

Senator **Boschwitz**. I was in Memphis yesterday, briefly, at the airport, but up our way, further up the river, I wish it did cost only a quarter. But it costs a quarter to get it to the river.

Mr. **Sparks**. Well, once you get it in the barge, it costs very little.

Senator **Boschwitz**. Yes, once you get it in the barge.

Mr. **Sparks**. Ten or twelve cents. But it costs a little bit more when you have to put it through the elevator.

So when you look at these slowdowns and trends in acreage, as some prices increase and some decrease, but you take away these strong incentives that high prices have given, and you go into this era of lower prices, it is very difficult for us to see acreage increasing tremendously. Already in Brazil, in southern Brazil, we have seen a soybean acreage decrease. There is still some advantage in northern Brazil, but it is slowing down rapidly, because they just cannot afford it when soybean prices are $5 a bushel. We just do not see the increase that we did in the past.

And this goes to China also. If you have been to China, China is already a garden, I mean, it looks like a backyard garden. If you look at their increase in the last 5 years, it has all been yields. And they have had this tremendous incentive to use technology, and the technology has been available. But as we look back in history, we can see that technology is tied to price, also; and when prices come down, technology will not be quite as applicable as it was in the past.

Senator **Boschwitz**. Pardon me for interrupting you, but other than Mr. Avery's reference to what happened in China and your mention of it, none of you have talked about the economic systems that exist in some of these countries which may be as much of a hindrance to agricultural production as anything else. I believe that some of the countries hold their prices down in an effort to satisfy their consumers, and probably have the reverse effect.

Mr. **Avery**. That is particularly true in the African countries; it has been endemic there for the last 20 years. We hope that is beginning to change for their sake.

Senator **Boschwitz**. I read an interesting article some time ago in the Wall Street Journal that noted while Asia did well, Africa busted. If you happen to have that article or recall it, I would like to have a copy of it. It pointed out that there really was no difference between African countries and Asian countries where there was an open market system. They spoke about Malawi and one or two other countries where the market system was open and where they did well.

Perhaps somewhere in the discussion, we can talk about the type of market system and the type of economic systems.

Mr. **Sparks**. Well, you know, it is very easy to prove in specific instances as well as the general, that price is the greatest fertilizer there is. If we go back and look in history, we can see that this happens over and over again. So we have to give the 1985 act a chance to work. The Congress and the administration are going to take a lot of heat in the next year as we are making this transition toward a more competitive policy.

Senator **Boschwitz**. You are going to have to respond to that, "Price is the greatest fertilizer there is."

Mr. AVERY. I do not disagree with it. But in some countries now, we have got both low-priced fertilizer and high-priced crops. That turns out a lot of productivity.

Mr. SPARKS. The EEC is the best example of that.

But I think I wanted to make this point today, that Congress has to be willing and ready to withstand the onslaught. In the short term, we are going to have a lot of comments that the new farm bill is not working, that we are not buying back export demand. We forget that it has taken us 7 or 8 years to get here. The dollar being weaker certainly does not help us.

In the short run, today we still have high prices. Even though we have a 1985 farm bill, we have not solved the short-term problems. We have a shortage of corn in the midst of plenty. We just went through a period of having a shortage of wheat in the midst of plenty because we are still operating under the 1981 act, we have not made the full transition to the 1985 act.

So, during this process everybody knowing that prices are going to be lower, we are encouraging the world to export everything, we are encouraging the consumer not to buy—we are probably today in one of the most depressed situations we will be in in the next few years.

So we think persistence on this competitive policy path will be very rewarding to the U.S. economy in general, and to U.S. agriculture in particular. This competitive policy must include both a U.S. commodity policy that allows markets freedom to seek equilibrium prices, and at the same time, unwaivering pursuit of the reliable supplier position that allows the investor to supply to all consumers.

In the short run, both the current 1985–86 farm situation and the one upcoming in 1986–87, we must really consider those in this transition period to a full competitive policy. Prices are still high; we have taken time to get there.

The upcoming 1986–87 season, we probably will outproduce demand again. I doubt exports will get turned around quick enough.

We are going to have a lot of pressures on the Agriculture Department and Congress from individuals and groups claiming that the agriculture act is not working, and that exports are not turning around.

I would point out that in 1979 the dollar started getting stronger, and we did not really feel the effect on the U.S. trade balance until 1983.

So when we start looking at world prices and trying to influence policy, it takes a long, long time. From 1961 until 1984, we never decreased a U.S. agricultural grain loan. So we went 23 years without reducing the loans.

Senator BOSCHWITZ. Well, it stayed stable.

Mr. SPARKS. It stayed stable, but it never went down during that 23-year period, but then we lower it 1 year, and we expect instant results. It takes a long time to turn a policy around, and we have to be willing to live with the——

Senator BOSCHWITZ. Well, you will be pleased to hear, Willard, that this Senator has that patience, and as a matter of fact, is looking forward to an opportunity to filibuster now that we have TV over there, you know, and to do it at some length. [Laughter.]

Mr. **Sparks**. So in summary, for example, just recently, the USDA sent out a poll—I think kind of a specific example here—of what the wheat farmers wanted.

We are a little concerned with the way it goes out, because we do not think it is made clear to the farmer if he accepts the poll what the alternatives are. It tells him what his alternative loan is, but it does not tell him what his alternative acreage is.

But yet, there was a study conducted by the USDA—and probably under Dr. Thompson—that basically showed even if you went back to $4.30 wheat, net farm income would actually be lower than it is under $2 wheat.

Well, they did not tell the farmer that in the poll. But still, even though they did not do that——

Senator **Boschwitz**. I got into that a little bit, and I think that they are telling the farmer in that regard now.

Mr. **Sparks**. All right. They need to do that. But even otherwise, it is going to be an indicator of what the farmer thinks about various trends in acreage controls and very high prices.

In real quick summary again, I think the important thing that we want to point out is that when you look at the appendix on page 2(a) at the top, under "Non-U.S. Area"—between 1960 and 1965, following a prolonged period of high prices, acreage increased more than 1 percent annually and slowed to 0.8 percent annually through 1975 even though demand for grain was high with the Russians buying large quantities. Since the mid-seventies acreage area has not increased very much, and has actually declined in recent years.

In our competitive analysis, we are having a very modest increase of only 0.1 percent annually over the next 15 years. Back to the thing that Mr. Avery was talking about with Brazil and various things; he thinks we can get a substantial, bigger increase, although nothing like we had in the seventies—but we think area will still increase between 0.3 and 0.2 percent from things like Brazil.

The other important factor is what happened to yields.

Senator **Boschwitz**. Pardon me. I did not understand the difference between "competitive" and "uncompetitive."

Mr. **Sparks**. Well, uncompetitive is a Senator Harkin type policy with controlled prices and high loans. Real prices like we had in 1981, without the U.S. subsidies. If U.S. prices were held at $5 on wheat, $3 on corn, and we did not have import quotas or export subsidies, then non-U.S. area would increase, we think, by 0.3 to 0.2 percent.

But under the 1985-type act, where prices are allowed to fall, non-U.S. area would only increase at an annual rate of only 0.1 percent.

The same pattern is suggested for yields. We can go down to the next section where it says "yields." During the late sixties and in the seventies yields increased 2.9, 1.7, and 2 percent annually. Then, between 1980 to 1984, when we started feeling the effects of China and EEC and the 1981 farm bill, yields increased 3.3 percent.

We have taken a 2-year average around each one of these dates to give us some better numbers.

So we think if you go back to a high price scenario, not only will you get an acreage increase, you will get a yield increase. All of these things come up with the United States actually becoming a net importer of grain by the year 2000 or maybe even before, under the uncompetitive scenario. If we keep a competitive price situation, then we can get U.S. exports increasing rapidly, maybe even to as much as 200 million tons by the turn of the century. That is shown on page 1(a).

In the middle of that page, we show U.S. exports in millions of tons. Under high prices without U.S. subsidies, we suggest the United States would actually import 7 million tons of grain in the year 2000. By 1990, we would be exporting less than half of what we are doing now if we went to high prices without subsidies.

Thank you very much for your attention. I hope this sheds some light. We have a lot of charts and other things here. As I said, we put this together in rather a hurry, and maybe later on if there are things we need to expand on, we will do so.

Thank you very much.

Senator **Boschwitz**. Well, like I said, you are a chart and graph man, but I like it.

All right. Mr. Sanderson, you have been very patient with us. At this time I would like to recognize Senator Hawkins.

Senator Hawkins, we are pleased to see you back in the Senate. It looks like you are all rigged up there, and we hope you are comfortable, and we are very pleased to see you back.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator **Hawkins**. I am doing very well, thank you very much. I am sorry to interrupt right at this particular point, but I did want to commend you, Mr. Chairman, for having these hearings on the most important topic before the U.S. Government today.[9] We hear an awful lot about the next tax bill. We have talked for I do not know how many years in this room on the farm bill. But we must understand that we do not live in a world of free trade.

We hear a lot of talk about "fair trade." We do not live in that kind of a world. It will do the public a lot of good, it will do members of this committee a lot of good, and our colleagues, if we prepare a record in this committee showing the real facts of trade internationally.

I come from the State of Florida, and we do not grow the substantial amounts of wheat and feed grains and many things that we spend hours and hours talking about here, that are grown in other States, but I do want to tell you that Florida is very involved in agriculture. You and I have discussed it before. The public does not understand the numbers. Florida is the gateway to the Caribbean and Latin America. Our semitropical environment brings us an awful lot of new residents, but we also have a comparative advantage in the domestic production of citrus and other fruits, vegetables, sugarcane, and greenhouse nursery.

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[9] See p. 264 for the prepared statement of Senator Hawkins.

Collectively, agriculture in Florida generates $4.5 billion each year. That is a lot of money. Three-quarters of that amount is pumped back into the economy on labor, equipment, and supplies.

But we face stiff competition from producers in the Caribbean nations, Latin and South America, and especially from Mexico. Often, the industries in those foreign countries are subsidized—and they are less stringently regulated. Take Brazil—every time someone mentions Brazil, my antennae go up. Brazilian citrus enjoys a Government subsidy. Florida citrus growers receive no income support from the Federal Government.

Mexican tomatoes are brought into the United States without undergoing the stringent marketing rules that are applied to Florida tomatoes.

I just want the committee to read my full statement, which I will enter into the record—I know the chairman will do that, and I ask his permission at this time, but consider these USDA statistics with regard to the size and scope. Citrus production generates $825 million each year in Florida; greenhouse nursery, $750 million each year; tomato production, $371 million each year, and sugar production, $350 million.

Our employment in food and fiber—that is a little phrase I learned from Senator Boschwitz in all these years on the committee—our employment tops 900,000 workers in food and fiber in Florida. So it is not just a State of tourists, sunshine, and opportunity. This puts Florida in the top 10 States with regard to agricultural employment.

I am looking forward with great anticipation to expanding the U.S. markets for commodities from Florida, and all commodities in general. I am looking forward to working with you, Mr. Chairman, and showing the world that U.S. Senators can be tough businessmen and tough traders, and that is what this is going to be—that is t-r-a-d-e-r-s and I would like to see us win this round of GATT talks—and I know we will with your leadership.

Thank you so much.

Senator BOSCHWITZ. Thank you, Senator Hawkins. I am well aware from our conversations in the past of the impact of agriculture in Florida though it is, as you say, not normally associated with it.

Senator HAWKINS. Thank you, and I am sorry to interrupt.

Senator BOSCHWITZ. Oh, no. That is fine. Of those 900,000 people, I think about 50 of them work at Wilke's Delicatessen.

Senator HAWKINS. And that is part time. [Laughter.]

Thank you for letting me interrupt, and I ask your permission to leave at this time. I am playing catch-up ball.

Senator BOSCHWITZ. Yes, surely.

Mr. Sanderson, you may proceed, and again, we thank you for your patience. We surely do not want you to decrease the length of your statement; we are prepared to listen to it, with the only request that you not be repetitious, though you may have a different slant.

STATEMENT OF FRED H. SANDERSON, SENIOR FELLOW, NATIONAL CENTER FOR FOOD AND AGRICULTURAL POLICY, RESOURCES FOR THE FUTURE

Mr. SANDERSON. I was going to say, Mr. Chairman, that I can be as brief as you want me to. You will notice that I have a two page conclusion at the end, and if it comes down to that, I still will have had my say.[10]

Senator BOSCHWITZ. No. Please proceed. Let us hear the different slant and the comments. I would welcome that, and I would invite that.

Mr. SANDERSON. In fact, that gives me sort of an advantage being the last. When you get to be as old as I am, you learn one thing—to try to maintain your balance in the changing tides of public opinion.

I have been through the sixties, when everybody projected a worldwide glut. I have been through the seventies, when everybody projected a worldwide shortage of food. We are now back again, almost full circle, although there is that one difference that in the 1960's India was written off as a basket case, and now Mr. Avery is telling us that India is probably going to be a major agricultural exporter.

In fact, they are an agricultural exporter already.

Senator BOSCHWITZ. Well, in my experience, that is what happens in life. Mr. Malthus would be terribly upset, or startled, by some of the testimony here this morning, that things go up for a while, and then they go down for a while. It is just a matter of how you prepare yourself for these cycles.

Mr. SANDERSON. I think this is right. Probably the trends are less troublesome to American agriculture than these temporary changes in the demand/supply balance over time.

Senator BOSCHWITZ. Surely. Willard Sparks has said that what we have tried to do with the 1985 farm bill—and I think we have to some degree—we have prepared ourselves for the next cycle, and it does not come overnight.

Mr. SANDERSON. Yes. I hope you are right. I will have something to say about that in just a minute.

Senator BOSCHWITZ. Fine.

Mr. SANDERSON. But on the trends, I think Mr. Avery does underestimate the strength of the demand trends in the developing world.

There are at least one billion people out there who are on the threshold of what we call the dietary transition, people who begin to have incomes where they can afford some livestock products beginning with dairy products, poultry, and pork.

Second, he says only 3 percent of the world population is really undernourished. There are more than 150 million people in India alone who are demonstrably undernourished, and I mean they do not get enough calories for a normal level of economic activity. There are at least 200 million underfed people there. I think the estimates which have been made by FAO and by some others that altogether, there are probably 400 million in that category, are just about accurate. Of course it depends on the definition.

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[10] See p. 304 for the prepared statement of Mr. Sanderson.

They are not all clinical cases, and he may be right about clinical cases of starvation, but these people in India, as their incomes rise, will want to fill their bellies, and this is something we have to take into account.

On the production side, while there is some statistical evidence of accelerated production growth, it is largely confined, if you look at it, to East and Southeast Asia, those countries at the same time turn out to be very fast-growing markets for our exports.

So production growth alone does not necessarily indicate what is going to happen to our exports.

Mr. AVERY. I would certainly agree with that, by the way, that production alone does not govern other things.

Mr. SANDERSON. Now, if you look at the present situation, the sharp fall in U.S. agricultural exports since 1981 has given rise to a flurry of projections of long-term stagnation of American agriculture. One of the current theories has to do with the alleged loss of comparative advantage of American agriculture. This theory, I think, has been effectively refuted in congressional testimony presented last year by John Lee, the Administrator of the Economic Research Service.

Senator BOSCHWITZ. Could you give me a copy of that?

Mr. SANDERSON. Yes. I have testimony here which he presented to the House Agriculture Subcommittee on Department Operations.

Senator BOSCHWITZ. Is that an extra copy?

Mr. SANDERSON. No, it is not an extra copy.

Senator BOSCHWITZ. No, no, you take it——

Dr. THOMPSON. I will get it to him.

Mr. SANDERSON. A year has passed since then, and in that year two of the major handicaps to American agricultural exports—the overvalued dollar and noncompetitive market support prices—have been removed.

Lower energy prices, lower interest rates, and more realistic land values have begun to improve the cost structure of American farms.

Projections by our national center, in cooperation with the Food and Agricultural Policy Research Institute, indicate a substantial recovery, about 25 percent, in the volume of our agricultural exports in the next 3 years, but only a very modest 6-percent increase in export value.

This does not mean, Mr. Chairman, that we are out of the woods. Under the new farm legislation, we are paying farmers huge production subsidies to make our export crops competitive. At the same time, we are resorting even more than in the past to acreage reduction to limit the budget exposure. That costly combination of contradictory policies has gotten us into trouble in the past and is probably not sustainable for very long.

If budget pressures lead us to rely even more heavily on acreage controls, we shall slide back into the residual supplier role, which we may have found profitable during rare boom periods, but very burdensome in most other years.

Export subsidies are not going to solve this problem because they are almost certain to be matched, one way or another, by our competitors.

What we need to do is to complete the policy adjustment. We must phase out the system of target prices and production controls and replace it by more precisely targeted, less expensive and less market-distorting programs of assistance to those farmers who are in serious financial trouble.

I know that you have been working hard to put American agriculture on a sounder long-term basis, and one can only hope that reason will ultimately prevail.

Senator BOSCHWITZ. It would be very helpful if you would help us come up with a more precisely targeted, less expensive, less market-distorting program.

Mr. SANDERSON. Are you inviting me to testify on that?

Senator BOSCHWITZ. Oh, yes. [Laughter.]

Sure. That has been one of the problems, you know, that we give these supports on the basis of production and not on the basis of need, which of course, heightens the cost of the programs, and then the more efficient farmers profit by all this and tend to buy out their neighbors. And yet, one does not want to subsidize inefficiency. One does not want to reward failure. We do too much of that in our society.

Mr. SANDERSON. Yes, that is right. You want assistance that facilitates adjustment, and for some farmers, that may mean credit to help them get back on their feet, and for other farmers, it may mean help to phase them out of farming, develop off-farm employment, and so on.

But I think with the right policies, we should be able to regain a larger share in the world market. Comparisons with 1980–81, may be misleading, however. It is well to remember that that year was the final year of the boom when our share in world grain export hit its peak of 55 percent. It has now dropped to about 40 percent, which roughly equals what it was before the world food crisis.

We should be able to get back to close to 50 percent, thanks to our strong competitive position in feed grains and also soybeans. In wheat, it will be harder because of strong competition from other suppliers.

Let me now turn to another theory put forward by the pessimists, and that is that there has been a fundamental secular change in the world's food supply/demand balance that does not augur well for international trade in agricultural products.

According to this line of reasoning, there has been a worldwide acceleration of production growth that is not likely to be matched by increases in the demand for food.

Furthermore, production growth is particularly impressive in developing countries that had been counted upon as growing markets for the United States and other major agricultural exporters. According to this view, 1980–81 marked not just the end of an 8-year boom, but the beginning of a new era.

Most predictions of this sort, based on a few years, experience that may be affected by cyclical factors, have been proven wrong in the past. I certainly agree with the very careful analysis that Dr. Thompson and his associates have made of the unusual circumstances that prevail today in contrast to the equally unusual circumstances that prevailed in the 1970's.

However, one cannot dismiss it out of hand. For example, if you look back, 1940 did turn out to be a turning point in agricultural productivity growth in the United States, and the agricultural revolution has since spread to other parts of the world. The demand for food has also been growing, although at a declining rate. The deceleration of demand can be traced to slower population and income growth worldwide, and the approaching satiation of demand in the most affluent countries.

Worldwide, we have seen a declining rate of growth of food production as well as consumption for at least two decades preceding 1980.

Yet all that time, world agricultural trade has been growing at a more rapid rate than production. The slowdown experienced in the past 5 years can be seen as the inevitable result of the correction of the inflationary excesses of the 1970's. Heavily indebted countries in Latin America and Eastern Europe had to reduce their food imports and increase their production and/or exports. And slower rates of income growth slowed down the demand for food.

Incidentally, on the next page, page 5, where you see "Developed Middle East" and "Developing Middle East," that is a typo. I had abbreviated "M.E.," meaning "Market Economies."

Senator BOSCHWITZ. So it is "Market Economies" instead of "Middle East."

Mr. SANDERSON. Yes.

Senator BOSCHWITZ. Throughout that whole thing, wherever it says "Middle East"?

Mr. SANDERSON. Oh, I see: yes; under "Import Volume" and "Export Volume," also, everywhere it says "Middle East." I am sorry about that.

I think it is an exaggeration to say that export markets have collapsed. Among exporting countries, only the United States experienced an absolute decline in export volume, and that was due entirely to its loss of market share. Total world export volume increased at an annual rate of 1.7 percent.

Senator BOSCHWITZ. That is so often overlooked.

Mr. SANDERSON. Imports of developing market economies as a group increased at an annual rate of 3.8 percent in 1980 to 1984. Grain imports by developing countries continued to grow, with nearly all of the growth accounted for by middle-income countries.

Japanese imports of coarse grains continued to grow, largely offsetting the loss that was experienced in Western Europe.

The net grain deficit of the developing market economies continued to rise.

There are a few instances where you can see trends. The rate of growth of agricultural exports from Latin America has been increasing steadily, and that of Western European imports has been declining steadily since the early 1970's.

There is some evidence, as I mentioned of accelerated production growth in South and East Asia. Asian rice production has recently run ahead of its long-term trend. That is due to the fact that the green revolution which first benefited wheat is now taking hold in rice.

The PRC and India have increased their production of oilseeds and cotton. There are some widely cited instances where former food deficit countries in Asia have become exporters of certain agricultural products. Yet East and South Asia remain fast-growing agricultural import markets.

In my opinion, there is not much in these data that would support the hypothesis of a permanent change in world agricultural trade trends. All we can say for sure is that the 1970's boom has made way for a recession that is also likely to be temporary.

Now let me turn to the long-term prospects for world market growth. The only way to arrive at a realistic assessment of future trade prospects is to analyze, country by country, the growth of demand as a function of such basic determinants as population and income growth and to compare it with the likely growth of domestic production, as determined by each country's resource endowment, technological trends, and policies—to the extent that they are predictable. This is what we have tried to do, in a set of projections to the end of the century by RFF's National Center for Food and Agricultural Policy in cooperation with Economic Perspectives, Inc.

Since the results of the study are available in considerable detail, I shall confine my presentation to the major findings regarding demand, production, and trade.

On the demand side, the projections are based on the thought that effective economic demand is the driving force in the expansion of the global food system. That demand will continue to grow, but at a slower rate than in the 1970's.

For cereals, the annual rate of increase is projected at 1.8 percent, down from 2.6 percent in the 1970's. For oilseeds, the projected rate of growth is 2.3 percent, down from 3.8 percent; for meat, 2.4 percent as compared with 3.1 percent; for milk, 1.5 percent as compared with 1.7 percent.

The trend factors which are responsible for this slowdown are reduced rates of population growth, except in sub-Saharan Africa; slower income growth; and declining income elasticities of demand for food, especially the approaching satiation of demand for livestock products in the affluent countries.

In addition, balance of payments constraints are likely to be more severe, particularly for Latin America and Eastern Europe, than in the "easy credit" 1970's.

These factors, taken together, will more than offset the positive effects on the rates of growth of food demand of the dietary transition toward increased livestock consumption in the middle income, newly industrialized countries.

But despite the reduced rates of growth, the prospective absolute increases in aggregate demand are very large. World demand for meat is projected to increase by 64 percent, for milk by 36 percent, for grains by 46 percent, and for oilseeds by 62 percent.

The largest percentage increases will be in the developing world, including China. Demand in the developed world, including the U.S.S.R. and Eastern Europe, is leveling off because of low population growth and the near saturation of demand for livestock products.

On the production side, a detailed examination of land and water resources and of the possibilities of raising yields by increased applications of inputs and technology suggests that all regions except sub-Saharan Africa may be expected to meet the increased demand largely out of increased domestic production.

While the rates of growth of demand are particularly large in some of the developing regions, these are also mainly the regions where technology has been lagging and the potential for productivity growth is therefore relatively great. Realization of this potential will of course require massive investments in land improvement, irrigation, research and extension; adequate inputs of fertilizer, pesticides, improved seeds; improved marketing and storage facilities and adequate economic incentives.

Cereals are most important since they account for about three-quarters of the world's crop area and production. As can be seen in table 5, the annual rate of increase in production is 1.8 percent—significantly less than the 2.6 percent annual growth experienced in the 1970's. Most of this increase in production will come from improved technology rather than additional land, as has been the case for the past several decades; indeed, area expansion is expected to contribute only 15 percent of the production growth as compared with 25 percent in the 1970's.

In absolute magnitude, the harvested grain area, which increased by 46 million hectares in the 1970's, is projected to increase by 40 million hectares in the years 1980 to 2000.

Above average rates of grain production are projected for Oceania, East and South Asia, Latin America, north Africa/Middle East, other Western Europe, which includes Spain and Portugal, and the U.S.S.R., but only in the last three of these regions does this represent an acceleration from the 1970's.

For North America, the projected rate of growth is less than half that experienced in the past decade. Only two regions—north Africa/Middle East and East Asia—are expected to increase cereal area more rapidly than in the 1970's.

The chief uncertainty perhaps concerns the U.S.S.R., where yields declined significantly in the 1970's. Increasing experience in the new lands and investment in better varieties and practices are expected to halt that trend, and yield increases greater than the world average are expected over the next two decades.

Even with the projected increases, yields in the U.S.S.R. would continue below the world average. They were 22 percent below average in 1969-71, 33 percent below in 1979-81, and they are projected to be about 24 percent below in 2000.

Both south Asia and the Asian centrally planned economies have had success in increasing yields through improved varieties and practices. While the ACP is not likely to be able to match the very great increases of the past few years over the next two decades, both regions are expected to continue to invest in yield-improving varieties and production inputs and to continue significant increases until the end of the century.

I might mention that in China, for example, we have had an extraordinary rate of yield increase since 1978—7 percent a year, year after year. I think there can be no doubt that that rate of increase cannot continue. As a matter of fact, there is some question as to whether these increases are entirely due to increased production It may be in part production coming out of hiding, production that was there before but without the incentives would not be marketed through channels where they can be recorded. So this has to be taken with a grain of salt.

When it comes to trade, our projection shows that in most regions of the world, production growth will continue to fall short of the growth in demand. The projections show increased dependence on grain imports from North America and Australia, oilseeds from the United States, Brazil, and Argentina, and meat from Oceania and Western and Eastern Europe.

Aggregate regional net imports are projected to increase by 200 percent for meat, 60 percent for dairy products, 85 percent for cereals, and 52 percent for oilseeds.

The most rapidly growing markets will be in East Asia and north Africa/Middle East. Massive food aid will probably be required if sub-Saharan Africa is to cover its rapidly growing grain deficit, which is projected to reach 29 million tons by the end of the century.

Now, what are the implications for the United States?

Total demand for American agricultural products, for domestic consumption plus exports, will continue to grow, but much more slowly than during the 1970's.

The total area in basic crops, which rose from 90 to 113 million hectares in the 1970's, is projected to increase to 124 million by the end of the century—a rate of increase only one-fourth that experienced in the 1970's.

Grain acreage is projected to increase by only 10 million acres in 20 years, compared with the 30 million acre increase in the 1970's.

Three-fourths of the required increase in cereals production is expected to come out of increased yields as compared with half in the 1970's.

In contrast with the 1970's, when over three-fourths of the increased oilseed production came out of acreage expansion, it is expected that almost two-thirds of the much slower future increase in demand can be met from increased production per acre.

U.S. exports of cereals are projected to increase from 110 million metric tons, which was the peak in 1979-81, to 168 million at the end of the century, which is still a 53-percent increase in 20 years, but it is not, of course, the tripling that was experienced in the 1970's.

Oilseed exports are projected to increase from 33 million tons to 54 million tons, a 64-percent increase in 20 years, compared with the doubling observed in the 1970's.

Cotton exports are expected to grow by 43 percent in 20 years, compared to the tripling in the 1970's.

In terms of annual growth rates, grain exports will decline from 11 percent to 2.2 percent; oilseeds from 7 percent to 2.4 percent; cotton from 11 percent to 1.8 percent.

But the total volume of U.S. agricultural exports, which rose from 40 million tons to 150 in the 1970's, at an annual rate of more than 10 percent, will return to more normal long-term growth of 2.3 percent in the period counting from the peak in 1979-81 to the year 2000.

Of course, if you allow for the sharp drop that has been experienced in the volume of exports, we expect growth rates from here on in the volume of exports of a little better than 3 percent. You can see that depicted in the chart on page 18.

Dr. Thompson mentioned a growth rate of 4 to 4.5 percent, which he said was going to be equal to what was experienced in the 1960's. We get lower figures for both, but we do agree that the rate will drop back to the trend rate that was observed before the world food crisis. It may be that the difference is due to Dr. Thompson using a deflated value, whereas this is simply the aggregate tonnage that is commonly used by the Department of Agriculture.

Do you want to hear about the uncertainties we face in projecting these things, or shall I leave that to your later perusal?

Senator BOSCHWITZ. Whatever you like.

Mr. SANDERSON. These are just cautions as to where we may be wrong and why.

Senator BOSCHWITZ. I will read it, and I must tell you, I have not asked for cautions, having seen a number of projections of a number of kinds of things.

You have completed your statement, then?

Mr. SANDERSON. Yes. Thank you.

Senator BOSCHWITZ. And these conclusions——

Mr. SANDERSON. They just simply summarize what I said.

Senator BOSCHWITZ. Well, I thank you. I am not sure if I have met you before, Mr. Sanderson, or if I have listened to you testify before——

Mr. SANDERSON. We had correspondence, and I still cherish some letters that have your smiling face on them. [Laughter.]

Senator BOSCHWITZ. Well, I enjoyed your testimony.

Now, rather than ask you questions, I would invite you to react to one another's testimony because some of what has been said, of course, has been contradictory.

So, in no particular order, if you wish to react——

Mr. AVERY. I would just like to say that I am delighted by the presentations, the way they fitted together, the picture that they do weave when they are placed together.

There is a good deal of uncertainty about how these things are going to play out, both in terms of policy and in terms of the pace of advancement and location of technology. I certainly enjoyed the morning, and certainly the other three were very solid presentations.

Senator BOSCHWITZ. I enjoyed the morning, too. It is interesting to hear your presentation and to hear Willard Sparks, who is more of a pragmatist, if I may say so, though I am certain your testimony also had this.

How do you react, Willard?

Mr. SPARKS. I think everybody was a little more optimistic than maybe I thought they would be. I do think it is important that we remember we are couching these things, these projections, in a situation where we expect very competitive prices.

I think the thing that I hear the most, and it goes back to some of our conversations last year, is that we get caught up in a high price scenario that prices do not matter. I think that is just part of the reason we are here.

So it seems to me it is very important that people's assumptions that they are making here—Mr. Sanderson and Dennis, also—I think each one of those are assuming prices stay very competitive and that we keep relatively low world prices—I think maybe Dr. Thompson made the statement.

But I guess maybe being on the outside, I may fear that the Budget Bureau gets control, or somebody comes in and says, "Well, we cannot afford to spend this money in agriculture." Therefore, on the surface, a high loan situation looks like it costs less, but in the long term, it is absolutely a detriment to agriculture.

I think everybody has made their projections in that scenario, although maybe they did not state it as strongly as I am going to state it, that if you take the other scenario of high prices, it is a killer, and we do not need this committee or anybody else in agriculture if we go the high price route.

Senator BOSCHWITZ. Bob?

Dr. THOMPSON. Yes, I would like to add my voice of congratulations to you for putting together a set of papers, I think, that are very complementary to one another.

I agree with Dennis Avery that we have to watch very carefully what is happening in research and development and productivity growth in the rest of the world. We might differ a little bit in the speed with which we assume that productivity growth will be generalized, and I might quibble a little bit that I would give greater emphasis, as Fred Sanderson indicates, to potential growth in the demand side of the market. Therefore I might conclude that there is more total potential growth in world trade than Mr. Avery might.

But I think he makes a very good point that we have to remember, that a significant fraction of the U.S. comparative advantage in the past—the important point that he makes, the implication is, that we have to remember that a significant part of our own comparative advantage in the past is we were the first country to have a really large influence of research and development through the hybrid corn technology, and probably at least half of our comparative advantage in corn is due to that social investment in R&D, or at least as much as the favorable soil and climatic conditions in the Corn Belt. He very rightly points out that some of the rest of the world has discovered the goose that laid the golden egg in the United States, and other countries are investing more than we are, certainly in percentage terms related to GNP, in agricultural research and development.

A very good case in point is Brazil which made a decision to invest massively in R&D late in the 1960's and that investment is paying off. So technological change will be lowering unit costs of production in other countries, and it is important for us to redouble our efforts to maintain our own commitment in that area where we may be outrun by some of our competitors.

I think Willard Sparks' presentation suggested he might be slightly more bullish than we are in terms of the volume of exports, but I do not think we differ all that much in our conclusions. I thought he made a very useful comparison of mandatory supply controls versus a market-oriented farm policy and put in bold perspective that if we want these agricultural exports, and if we want the agricultural employment that goes with them, we are going to have to maintain a market-oriented policy, or we are simply going to give it away, and we will end up in a net import position.

Senator BOSCHWITZ. Willard Sparks came up with the best line of the morning, and that is: "The greatest fertilizer is price."

Dr. THOMPSON. I agree. And you cannot put too much emphasis on that.

Senator BOSCHWITZ. He speaks a language I understand in my business.

Dr. THOMPSON. Fred Sanderson's projections are broadly consistent with our analysis, it seems. We may vary because of different assumptions or base periods, but we seem to reach very similar conclusions.

One point that he made perhaps might have a small caveat added. This concerned the drop in the dollar that has already occurred. We have to talk relative to which currencies. Yes, we need the drop in the strength of the dollar to restore export competitiveness, but when we look at the wheat market, we see that in the last 12 months the Canadian dollar, the Australian dollar, and the Argentine ostril have all fallen relative to our dollar, so we are perhaps 5 percent worse off today than we were a year ago in the wheat market relative to those competitors.

Senator BOSCHWITZ. I made a note of that, too.

Dr. THOMPSON. And in the Common Market, we have depreciated relative to their currencies, but their export restitutions automatically expand to backfill, and so that will not help our competitiveness relative to them in the short run, but it might be viewed as a long-term investment in raising the cost of common agricultural policy and hastening the day when it is reformed.

But all in all, I am very pleased with the set of papers you have pulled together this morning and appreciate the opportunity to participate.

Mr. SPARKS. I might add one thing. We did this rather quickly and did not have a lot of time. The thing that popped out at me—this is aggregate, and you get a lot of pluses and minuses. But you can see on page 3(a)—look there in 1972, when the grain prices jumped up. You can see we had that big area increase of almost 25 to 30 million hectares, and then we went on up and peaked out in 1981.

So the trend line you see through there is one thing. But if you look at it since the high prices of 1972—there is no increase. I do not know how the USDA explains this but it is something we are going to look more into. This just kind of popped out at us in the last couple days, and we need to look at it by countries, and commodities. I know Russia has come down. There are a lot of pluses and minuses that go into this total.

But that may be the most encouraging thing for U.S. agriculture is the fact that we may have finally slowed down, and I think the next couple years with these relatively low prices, to see what really happens—does this thing stay down, go lower? The next 2 or 3 years are going to be interesting. No one has felt the low prices. You look at cotton. Pakistan is still subsidizing their cotton prices at the same as last year's crop. Australia already is going to reduce their acreage 50 percent because of high prices—50 percent.

Senator BOSCHWITZ. Say that again.

Mr. SPARKS. Australia will reduce their cotton acreage next year 50 percent.

Senator BOSCHWITZ. Are they a big cotton producer?

Mr. SPARKS. They are 1 million bales; in world trade, that is 5 percent of world trade. But they are mainly just an exporter. They are like we are in wheat; they do not consume much.

Price, not only is it a great fertilizer, but it is a great equalizer, also. I think it is going to be interesting as we go into this lower price scenario in the world market. Will Western people want to spend the money that they have got to spend to stay in the game. The next couple or 3 years are going to be really interesting as we go into this new lower price scenario to see what is going to happen.

Already Australia is the first one I know of that we can already see a significant change in acreage next year because of the 1985 farm bill.

Mr. SANDERSON. I would like to draw attention to just two points very briefly, Mr Chairman, that have to do with policy.

I think one of our principal concerns must be to maintain the expansion of our developing country markets. There are two things that I think we can do. One is that we have to be careful not to crack down on their exports, which they had to increase in order to get back on their feet; and the trade legislation which has been passed by the House I think would be pretty devastating on that account.

We have to pursue——

Senator BOSCHWITZ. I do not think it is going to go—I would hope it would not go too far in the Senate; certainly, I would oppose it.

Mr. SANDERSON. Right. Then, I think we have to pursue the rescheduling of the debts in order to enable countries like Mexico, which is I understand one of our major customers, and Brazil and others, to continue buying from us.

Finally there is something I think we ought to consider when we administer our export promotion programs. There is altogether too much emphasis now on fighting fire with fire; trying to get ahold of markets which are pretty limited, cannot be expanded by price concessions, like some of the oil-exporting countries in the Middle East. I think we should stop playing the zero sum game.

We should promote our exports where concessional sales can expand demand. Food aid is one thing, and also I think the Credit Guarantee Program can do a lot of good in countries which find themselves in temporary balance of payments difficulties. There, I think, the guarantee program can help to expand the market.

Senator BOSCHWITZ. It would be interesting—I have had conversations with some of my friends in the export trade, and they are not very enthusiastic about the BICEP Program. They think that it, if anything, has resulted in our losing markets, because those whom we do not give a little BICEP to, of course, are aggravated with us.

Have you found that, Willard?

Mr. SPARKS. It is awful hard to be selective about whom you are going to be nice to, and if you are not nice to everybody, so to speak, then your friends get nervous, you know.

Senator BOSCHWITZ. Does the Department have any comments on that?

Dr. THOMPSON. I think it is well-known the Department opposes across-the-board use of export subsidies because of some of the foreign policy implications of subsidizing grain supply, for example, to the Soviet Union or other centrally planned economies.

Mr. SPARKS. Cotton and rice are two commodities that are completely independent, because there is no subsidy—very costly programs, probably. But we are going to find out what happens if basically there are no loans. The cotton market has no loans. The law says we must move cotton into the market to get rid of the stuff, period. It does not say what price or anything.

So we are going to find out if price can stimulate demand. And it so happens that I think cotton is kind of a unique commodity in that you can create demand for cotton by advertising.

I used the example in a speech—how many of your kids bought a Coca-Cola T-shirt and a Coca-Cola pair of jeans to keep warm?

So where we can stimulate cotton demand. Cotton prices for the textile industry will be roughly $1 billion less than a year ago—$1 billion. A tremendous amount is going to go into advertising and promotion, and we will see specials on cotton products and all kinds of related items.

So we are going to stimulate demand in cotton, domestic demand, cutting down imports, and we are going to see what happens. I think cotton is going to be the first commodity where we get rid of the surplus—not completely because of the market loan, but a lot of it, and maybe that is an indication—there are some people working at USDA now saying that we ought to take the money from BICEP and use that money to make a market loan in other commodities.

Senator BOSCHWITZ. I would be agreeable to that.

Mr. SPARKS. And certainly, I think cotton is going to be an example that we can point to of what happens when you really just do not have a loan; you just make your stock available to the market. That is what we are doing.

Senator BOSCHWITZ. Rice seems to be——

Mr. SPARKS. Rice and cotton both. Your cotton Members in the House did a good job with cotton and rice, getting rid of the surplus.

Senator BOSCHWITZ. I helped them, but I was unfortunately unable to get the same for some of my commodities. But I was going to talk to Dr. Thompson about that because we find ourselves at the end of the line up there, and I do not know where we are going to put all the stuff.

But I thank each of you for coming, and maybe we can continue this conversation either informally or here at the table at some later time.

[Whereupon, at 12:30 p.m., the subcommittee recessed, to reconvene at 10 a.m., in room SR-332, Russell Senate Office Building, Tuesday, June 17, 1986.]

PREPARING FOR THE GATT: A REVIEW OF AGRICULTURAL TRADE ISSUES

Market Development and the Activities of the National Commission on Agricultural Trade and Export Policy

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TUESDAY, JUNE 17, 1986

U.S. Senate,
Subcommittee on Foreign Agricultural Policy,
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee convened, pursuant to notice, at 9:45 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Wilson, McConnell, Dixon, Heflin, and Zorinsky.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator Boschwitz. The hearing this morning will be in two segments. The first part will be about the cooperator program which operates in conjunction with FAS, and we will hear from several cooperators. Then the second part of the hearing will be a report by the National Commission on Agricultural Trade and Export Policy. This is a Commission that was established in 1984 at the suggestion of Senator Dole; I joined that suggestion at that time, as did my colleagues, and we will hear a report. I understand that they are very close to formally reporting.

The subject of agricultural exports is close to the top of our minds because of the difficulties that we are having with agricultural exports. Hopefully, as the 1985 farm bill gets fully implemented, we will have better results.

I think that most people who observe the scene agree that it will be transitional; it will not happen very quickly. I personally have been more optimistic about it. But we are finding that our competitors are adjusting quite quickly to the price levels—it is going to be a tough fight.

We must rely on the world market if the products of our fields and farms are going to be sold; unless we want to slow down the whole output of the countryside. This is something I would not like to do.

In any event, I welcome my colleagues Senator Dixon and Senator Heflin this morning. Gentlemen, do you have opening statements?

Senator DIXON. I have placed my statement in the record, Mr. Chairman, and I thank you for your inquiry.[1]

Senator BOSCHWITZ. Thank you. Nothing further?

Senator DIXON. No, sir.

Senator BOSCHWITZ. Senator Heflin.

Senator HEFLIN. Mr. Chairman, I am very much interested in hearing of the activities of the National Commission on Agricultural Trade and Export Policy. But I have, as we all do, conflicts that exist—every time you have a hearing you want to listen to and be at, there is some other one that you have got to go to and be there.

So I am going to have to come back, but I wanted to particularly mention that Richard Buchanan, of Montgomery, AL, who was the chairman of the board of governors of the National Forest Products Association, is one of the witnesses today, and Mr. Buchanan is one of our outstanding orators and outstanding businessmen in the State of Alabama—and whatever he tells you is the gospel, so just mark it down, and I will try to get back to hear him.

Senator BOSCHWITZ. Shall I put it in the same category that your statements normally are, Senator?

Senator HEFLIN. Well, mine sometimes have been tainted because of my environment and influences up here. His are untainted.

But nevertheless, I hope I can get back to hear him.

Senator BOSCHWITZ. Well, I thank you, Senator, and I hope you are able to get back. I looked at the series of hearings in the morning paper that are being held in the Congress today, and it really is quite a collection.

This is one of a series of hearings that we are holding in the Foreign Agricultural Policy Subcommittee for the purpose of building a base of understanding and support for our GATT negotiators when they convene in the fall. We very much appreciate not only your presence, but the presence of your constituent.

I will call now Winston Wilson, who is chairman of the U.S. Agricultural Export Development Council and president of U.S. Wheat Associates; Richard Buchanan, chairman of the board of governors, as Senator Heflin has noted, of the National Forest Products Association; Elbert Boyd, president, board of directors, of the U.S.A. Poultry and Egg Export Council, of Tucker, GA, and Steven Easter, of the California Almond Growers Exchange in Sacramento, CA.

We have a very broad group of witnesses this morning. We will proceed with Mr. Wilson first.

STATEMENT OF WINSTON WILSON, CHAIRMAN, U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL AND PRESIDENT, U.S. WHEAT ASSOCIATES

Mr. WILSON. Thank you, Mr. Chairman and members of the committee.

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[1] See p. 318 for the prepared statement of Senator Dixon.

I would like to begin by commending the subcommittee for holding these hearings. I think they are extremely timely, and I believe it is important that the Senate Committee on Agriculture have a better understanding of the Foreign Agricultural Service Cooperative Market Development Program.

I have submitted a statement for the record, and in the interest of time, I will summarize my remarks and not read the entire statement.[2]

I would like to begin by briefly discussing the history of the cooperator program. It was initiated in 1955 as a result of Public Law 480, the section in Public Law 480 which was passed in 1954, which authorized up to 5 percent of foreign currency generated by sales of U.S. agricultural products to market development efforts. Some years later, this became a general appropriation rather than use of foreign currency, and it remains today an appropriated item.

The first cooperative agreement was signed with the Cotton Council International in 1955, and today we have more than 60 commodity organizations which currently are conducting activities in about 130 foreign countries.

In my view, the program has been an unparalleled success, and has often been cited by other U.S. industries as a blueprint for developing export markets for U.S. products. There has been a lot of discussion by Commerce and other agencies in developing a similar program, but at this point, this unique partnership between Government and the private sector is only in existence for the agricultural industry.

As you mentioned, Mr. Chairman, we have a diverse group here this morning, and the group involved in cooperator programs is even more diverse, from the standard crops like wheat, corn, and soybeans to more exotic things such as mink, papaya, cranberries, and wine promotion. But I think the diversity of the products involved is good testimony to the effectiveness of the program in developing export markets.

Funding of the market development activities is jointly provided by producers, industry groups, and in some cases, State governments and the Foreign Agricultural Service of USDA.

In fiscal year 1985, the Foreign Agricultural Service provided $29 million to the program; the non-Government producer and industry groups provided $35 million, and $29 million came from foreign third-party participants. And I might just take a moment to explain that.

The foreign third-party participants are people who we work with overseas who feel strongly enough about the effectiveness of these programs to put their own time, money, and efforts into these programs and that has been a very critical factor in the success of many of the market development programs over the years.

The question often arises why is it necessary to have Government funding made available for market development activities. I think there are a number of good arguments for Government involvement. One strong argument is the fact that most of the industry funding for these activities is paid by the agricultural producers themselves, while the benefits of increased exports are certainly spread very widely throughout the U.S. economy. The benefits include not only the business activity generated by a high level of exports, but the considerable tax savings which result from higher exports and lower costs of Government agricultural programs.

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[2] See p. 322 for the prepared statement of Mr. Wilson.

Another consideration is the fact that while many commodities are grown throughout the country, there are a limited number of producer groups which are organized usually on a State basis to collect money for market development. In the case of my own organization, U.S. Wheat Associates, we have 14 State wheat commissions, but yet wheat is grown in about 40 States in the continental United States, and we are promoting wheat from all of these States and of all classes, while we are receiving funding from producers in only 14 States.

So I think there is a rationale that those who are not directly contributing should be contributing through the public funded portion of the program.

Another factor which I think is extremely important, and one that is often overlooked, is that aside from the cooperator groups which are promoting U.S. agricultural exports, there are no other groups actively involved in this type activity. When we look at the Government market development expenditures as a percentage of export sales, the United States, even with the cooperator program, is spending less than any major exporter in the world. In 1985, we spent seventeen-hundredths of 1 percent of our total volume of agricultural exports for market development. When we look at the almost $8 billion that the 1985 farm bill devoted to export sales, $30 million for market development does not seem like a very substantial figure. Certainly, it is not when looked at in those terms.

One other thing that I might add about the program is that after 30 years of experience, it has been to this point untouched by scandal or abuse, and we think there are very few Government programs that can make that claim.

Market development activities involve a number of tasks, but I think they can be categorized into two primary objectives—to expand product usage and to see that the U.S. share of sales of those products is as high as possible. Now, to get there, there are a lot of different types of activities that can go on, including identification of market opportunities, the introduction of new products and processes, consumer promotion, removal of trade and technical barriers and trade servicing, which is a very important feature of many of our activities.

I think one area that is extremely important, particularly in terms of the bulk commodities, is the fact that the U.S. alone, among most of the leading agricultural exporters is the only country that does not do business on a government-to-government basis. Consequently, we have a very complex and complicated marketing system which is almost unfathomable sometimes to customers who are used to doing business with a particular government agency, as in the case of Canada or Australia.

Consequently, it requires a great deal of education and guidance to allow these people to use our system effectively, and I think this is a critical role which is filled by the trade servicing part of market development activities.

Probably the most exciting area of market development work is to see a market grow where there was no market before, and I think all of us who have been in this business have seen this happen over and over again, and I am sure other members of the panel this morning are going to have some instances to cite. But I would like to briefly touch on a couple.

One was a Feed Grains Council project which took place back in the 1970's in Spain. There was no lamb feeding at all in Spain at that point. The Feed Grains Council undertook a project which introduced grain-based lamb feeding, included animal health assistance, flock management, and consequently, the grain feeding industry went from zero to 2 million head per year very quickly and resulted in growth of feed grain exports at a rate of about $3 million a year, and soybean exports growing at about $1 million a year for several years.

Senator BOSCHWITZ. Is that $1 million or $1 billion?

Mr. WILSON. Well, that is the growth rate, Senator. There was an additional $3 million a year worth of feed grain sales each year.

Senator BOSCHWITZ. To Spain?

Mr. WILSON. Yes.

Senator BOSCHWITZ. We sold $700 million worth of corn to them last year.

Mr. WILSON. Yes, but the $3.4 million growth rate was attributed directly to the lamb feeding program——

Senator BOSCHWITZ. I see.

Mr. WILSON [continuing]. In which the rate was growing at about $3 million additional sales each year.

We have had similar projects in Wheat Associates over the years, including working in Asia, where there was virtually no wheat market 30 years ago to speak of. A couple of examples which I might mention, one particularly in the early 1960's, Japan purchased no spring wheat from the United States. They purchased solely from Canada. Their feeling was that U.S. spring wheats were totally inappropriate for their needs. As a result of research done in Japan by United States Wheat Associates, or at that time, Western Wheat Associates, a 2-year project, Japan suddenly became a major importer for U.S. spring wheat. This has been certainly a project that continues to pay us dividends now, 25 years later.

There have been other similar activities all over Asia, particularly in the introduction of new wheat-based products, and consequently Asia has been our largest market and is continuing to be our big growth market around the world.

Most recently, we have been involved in a number of activities in the People's Republic of China, including the introduction of instant wheat-based noodles, Western-style bread, and other projects including a model flour mill.

These activities have dramatically increased the consumption of wheat-based foods in China, particularly in southern China. We are beginning to see dividends from this work. Unfortunately, because of trade and political problems in recent years with the People's Republic of China, we have had a limited ability to sell to the Chinese, but consumption is going up, and I certainly believe we are going to see the benefits of this program.

Some other recent activities in Asia include the introduction of sandwiches to schoolchildren in Thailand and the project with the Sri Lankan army to introduce wheat-based noodles to their weekly ration. This has been a very effective way to introduce new projects.

I am sure you are going to hear about additional activities like this from the other cooperators, but I think it is safe to say that much of the U.S. agricultural growth in exports during the 1970's was due to work that went on in the 1960's and during the 1970's. I think it is critical that if we are to see a real turnaround in our export markets in the future that we must continue this kind of activity, and we must pursue the expansion of consumption for U.S. agricultural products around the world.

I think in the case of wheat most recently, additional evidence of the value of this kind of activity is the fact that a number of our competitors have begun to do similar activities—particularly the French, the Australians, the Canadians, and even recently, Great Britain has formed a market development organization for British wheat. So I think even our competitors see the value of these types of projects.

I would be happy to answer any questions you might have, or I could defer to the other members of the panel.

Senator BOSCHWITZ. Senator Zorinsky, do you have any opening statement?

Senator ZORINSKY. Mr. Chairman, I have a prepared statement and request that it be placed in the record.[3]

Senator BOSCHWITZ. Without objection.

Senator ZORINSKY. I do have a question.

Senator BOSCHWITZ. Sure. Before you ask the question, I notice that Senator McConnell has also joined us.

Senator MCCONNELL. Thank you, Mr. Chairman. I will just ask unanimous consent that my statement appear in the record.[4]

Senator BOSCHWITZ. Certainly.

Senator Zorinsky, if you have a question, go right ahead, and I will hold mine.

Senator ZORINSKY. Thank you.

Mr. Wilson, on page 4 of your statement, you point out that seventeen-one-hundredths of 1 percent is particularly low for spending on promotion by Congress in order to increase export capability. With such figures, it is evident that the United States is not in the same ballpark as some of our competition. I totally agree with you.

What is your opinion about opening up a bonus export program using CCC commodities to all customers, including the Soviet Union? Would such a program displace purchases that might be made from their other suppliers? Would such a program divorce the economics of agriculture from foreign policy of this country?

Mr. WILSON. Well, I have always felt that we have been much too timid in use of the tools that we have available. We let our political hangups interfere with our better judgment in terms of marketing.

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[3] See p. 318 for the prepared statement of Senator Zorinsky.

[4] See p. 319 for the prepared statement of Senator McConnell.

I think the program should be broadened significantly not only in terms of the Soviet Union, and the People's Republic of China should be included, but I think we should look very carefully at our other competitors other than EEC. We confine most of those activities to touch only the EEC because they are quite open with their subsidization, but there is very clear evidence, that some of the other at least wheat exporters are clearly into heavy subsidization programs, although not quite as open as the EEC program, and to this point we have been very carefully avoiding interfering with their markets; but at the same time, they have been very predatory in our markets, and I think we need to take a hard look at that.

Senator ZORINSKY. Do you believe, based on your experience, that anyone in the administration knows anything about marketing or sales?

Mr. WILSON. Yes, I think they are quite competent. Part of the problem, frankly, has been the program in terms of—I assume you are talking mainly about the EEP Program at this point—it has been terribly complicated by the fact that there has been a real effort to keep it transparent so that there is not a lot of question about whether something improper is going on; and the other complicating factor is that in most instances, one has to seek the State Department's approval before these kinds of programs can be announced, and in many cases, that becomes almost an overwhelming barrier.

Senator ZORINSKY. Do you think it would be feasible to take that prerogative away from the State Department?

Mr. WILSON. Well, I think certainly there is probably some room for leaving an advisory role for the State Department, but it becomes very irritating sometimes when they totally reject a proposal on the basis that it might in some fashion harm one of our competitors.

Senator ZORINSKY. I do not know how we can instill in State Department officials a businesslike attitude when the politics of international foreign policy dominates decisionmaking in that agency. It is unfortunate. Common sense and business logic should dictate the formulation of the decisions.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Senator, every time we speak, you sound like you should be sitting on this side of the table.

Senator ZORINSKY. I am sitting to the right of you. [Laughter.]

Senator BOSCHWITZ. Before you leave, Senator McConnell, I was going to ask you if you had any questions or if you were particularly interested in one witness or another, we could take them out of turn, or——

Senator MCCONNELL. No, Mr. Chairman. I have to go to another committee. Thank you very much.

Senator BOSCHWITZ. As I said earlier, I noted in the paper this morning, the list of committee hearings is almost endless today. It took half a page, I think, just to list them.

Senator ZORINSKY. Our other meetings concerning Mexico are going on right now.

Senator BOSCHWITZ. Yes, I know. We are supposed to be there. I think the chairman of this committee is there, however, so that they are probably covered.

I follow along on some of the questions that the Senator from Nebraska asked. Let me ask some questions with respect to the cooperator program. In 1982, the inspector general came up with the idea that there should be more independence of action on the part of the cooperators themselves, even though there is, as you pointed out, about one-third Government money involved. In the program, how has that worked and what do you think of that approach? I understand that the Commission is taking a little different approach in its report.

Mr. WILSON. Basically, it is working very well at this point. It was a very difficult 2-year transition period in terms of working out new rules and regulations and some testing of the waters on both sides. But I think most of those problems are behind us now.

The independence of action is still limited which I think is as it should be when you are expending Government funds. There is approval for the basic approach to the marketing activities involved in development and approval of a marketing plan, but the change has come that every dollar and a half expenditure does not have to be signed off on by four different people.

At the same time, I think there is very good fiduciary control over the system. FAS has a group of auditors who regularly audit cooperators, both in their foreign offices and in their home offices in the United States to make sure that the money has, in fact, been expended in the manner which was authorized.

Senator BOSCHWITZ. I note in your testimony that you say that there has been no hint of any impropriety in the 30 years that the program has been in effect. When Mr. Gwin, who will be representing the National Commission on Agricultural Trade and Export Policy comes forward, perhaps he will address that and why they now want to make a change. It would seem to me, offhand at least, that your approach is a correct one.

It is all very nice to have a program through FAS or through cooperators, to promote sales. However, as Senator Zorinsky has alluded to, sometimes other factors come into play, whether it is through the EEP Program that you spoke about or other types of subsidies—certainly, the EEP must be regarded as a subsidy—that would frustrate your best efforts to sell products.

One of the other elements that has come to public attention recently has been quality. Can you give me your assessment of quality as it applies to wheat and whether or not we have suffered and whether or not your efforts have been frustrated because of quality problems?

Then I will ask the followup: What can be done about it?

Mr. WILSON. Well, quality is definitely a competitive factor just as price is. And we have, I think, in terms of wheat been extremely handicapped over the past 2 or 3 years because we were not only being underpriced, but at least in some cases, the quality being offered at those lower prices was better than ours in terms of content of foreign material, dockage, some of these things.

I think in some cases, the quality problems do tend to get a bit overblown, particularly in the press; there are definitely instances where there are serious problems.

But I look upon it as primarily a competitive factor at this point and we need to make some changes in our standards in this country.

I have been involved as have other organizations in a continuing series of meetings with the North American Export Grain Association since January. We have discussed a number of these issues. It has been a very slow process. But we did succeed in getting some recommendation of changes to FGIS regarding the reporting of dockage, the certification of protein, which are currently in the comment period, that were published in the Federal Register in early May. We think these changes are probably going to take effect, and it is certainly not enough, but it is progress in that area.

These discussions with the exporters and grain trade will continue in the future, and I am hopeful we are going to make some progress. But it is very slow and time-consuming, but at the same time, I think we are probably going to——

Senator BOSCHWITZ. Well, I commend you for those efforts. The question that I have is whether or not it is just in the hands of the grain traders or whether it goes down the whole line of the agricultural tree, all the way back to the seeds that are used, and whether or not we will be able to be competitive. Our farm programs have a tendency to cause production to be rewarded. Production in the seeds and the type of wheat that is grown, or other things for that matter, are not always consistent with the type of wheat that might be best exported or that might go through the whole chain of the infrastructure and then finally arrive at the dock in Rotterdam or wherever it goes and be of the same kind of quality as another type of wheat might be. The whole system may just need some revising, from what I see.

Mr. WILSON. Well, there are definitely some problems that we currently face because of new varieties which have certainly—there has been almost an explosion in new wheat varieties over the past 5 years. One aspect of that problem is certainly the quality of the protein levels, the other milling and baking qualities. That is important.

But a very serious situation that is developing this year, as the harvest starts to move through the Great Plains is the fact that we have a number of varieties of Hard Red Winter wheat that looks like spring wheat; and we also have a number of spring wheat varieties which look like Hard Red Winter. And it is becoming very difficult visually, which is our only system we currently have, to make that determination, to tell the difference. Consequently, we are seeing some wheat that is grading-mixed which, in fact, should, for all practical purposes, be Hard Red Winter wheat. And this may down the road cause some marketing problems. It is a problem that everyone thought we would face next year, but it is suddenly here this year.

So that is a serious problem. Even though the quality of these respective varieties may be very good, it is very difficult to determine which class they fall in.

Senator BOSCHWITZ. Well, I would suggest that you exercise great care in your industry where wheat particularly is in a very, very competitive situation. There seems to be no bottom to the price of wheat on the international markets, as low as we have established loan rates; $2.30 still may not be the bottom of the market, and we need to exercise considerable resolve.

However, if the industry seeks to gain the support of Congress, then the other problems we are touching upon here are such that we would not want to expend the funds of Government, which we do considerably, and with considerable broadness and generosity to the agricultural sector, and then be frustrated in our efforts to move the material because of the kind of problems that you are now eliciting, or because of various elements of the grain trade not cooperating.

We do not want to establish Government boards and do not want to establish the Government at every juncture of the process. I trust that the folks in the wheat industry will not make that necessary.

We are now going to turn to Mr. Boyd. Do you want to summarize this? If you wish, you can introduce the whole thing into the record, or if you are more comfortable reading it——

STATEMENT OF ELBERT BOYD, PRESIDENT, BOARD OF DIRECTORS, U.S.A. POULTRY AND EGG EXPORT COUNCIL

Mr. Boyd. Mr. Chairman, I would like to ask your permission to introduce the full statement in the record. I will try to be brief, because I realize how short you are on time. I would like to emphasize certain points.

Thank you very much for calling this subcommittee to consider the agricultural trade issues. I think it has been a tremendous problem over the years to get some attention within the Congress.

On a daily basis, I am president of E. Boyd Associates, which is an international trading company specializing in the exports of U.S. poultry products, primarily poultry products; we do some few egg products.

So I am here as president of the U.S.A. Poultry and Egg Export Council and also as a businessman.

The U.S.A. Poultry and Egg Export Council is industry-controlled. It is a nonprofit organization, and it was formed, of course, by industry members in March 1984. This was through the efforts of the Southeastern Poultry and Egg Association.

We are a relatively young cooperator. The sole purpose of this council is to expand the export markets for U.S.-produced poultry and eggs and further processed products.

Senator Boschwitz. Offhand, do you know how much the U.S.A. Poultry and Egg Export Council contributes to the $30 million or so that is contributed by the industry, 60-odd people?

Mr. Boyd. Do you mean in terms of funds spent by the council, sir?

Senator Boschwitz. Yes. As Mr. Wilson pointed out, it is about one-third/one-third/one-third, and each third is about $30 million. How much of the $30 million does the U.S.A. Poultry and Egg Export Council throw in?

Mr. Boyd. I am sorry. Let me briefly explain the structure. The U.S.A. Poultry and Egg Export Council receives about $1.5 million of funding from FAS.

Senator **Boschwitz**. How much does it put into the whole cooperator program?

Mr. **Boyd**. The membership itself puts in, in direct cash contributions, about one-quarter of a million dollars. And then in industry overseas promotion matching funds, and in the foreign investment funds, we exceed the $1.5 million. It would be between $1.5 and $2 million.

Senator **Boschwitz**. Go ahead.

Mr. **Boyd**. Going back to the success of the export council, during the first 18 months the industry realized that it needed an arm to assist it with developing export markets.

Based on the relatively limited success—you cannot do but so much in 18 months, but there were quite a lot of accomplishments—the export council was incorporated as an independent national trade association on October 1, 1985. Until that time, it was under the auspices of the Southeastern Poultry and Egg Association.

Since that time, the export council has continued to grow and conduct successful programs through offices in London, Hamburg, Tokyo, Hong Kong, and Singapore.

I will mention a couple of successes. One of the significant successes is negotiation with the Government of Algeria to modify its import regulations for eggs. Prior to the council's efforts, all eggs being imported into Algeria had to arrive no more than 8 days following the day they were laid. Of course, due to the transit time of ships, it was impossible for the United States to supply that market.

After 20 months of work and negotiation by the council, the Government of Algeria has adopted import regulations for eggs, stating that "washed, sanitized and oiled eggs may be imported into Algeria within 30 days of processing."

Senator **Boschwitz**. What is a "washed, sanitized, and oiled" egg?

Mr. **Boyd**. After the egg is laid, it has to be washed to clean the exterior. Then it has a solution to sanitize it, and then it is oiled to seal the shell of the egg.

Senator **Boschwitz**. So that air does not get in and it stays fresher; is that the idea?

Mr. **Boyd**. It stays fresher for a longer period of time. All U.S. eggs consumed within this country are put through this process.

Senator **Boschwitz**. Is that right?

Mr. **Boyd**. Yes, sir.

Senator **Boschwitz**. But you do not have a sense of the oil on the egg.

Mr. **Boyd**. No, sir. It is a very light finishing oil.

Senator **Boschwitz**. What kind of oil?

Mr. **Boyd**. If you will forgive me, sir, I am not an egg expert, and I really do not know which oil they use.

Senator **Boschwitz**. All right.

Mr. **Boyd**. But this negotiation with Algeria is significant because the transit time is anything from 10 to 15 days, and now, the United States producers and processors are able to bid on Algerian tenders. This has effectively opened the market to U.S industry. It did not overcome the difficulty of competing with subsidized prices for European eggs. But through the council's efforts, the Export Enhancement Program will now be used, and the U.S. industry will be able to bid on a competitive basis for a contract which could represent 1.25 million cases of eggs from the United States. That is a very active issue within the egg industry now.

The effort of the export council not only opened the Algerian market to the United States, but through these programs, will increase the exports of United States products, increase the value of United States products in this country, and return additional income to the United States agricultural economy.

If this sale is successful, the value to the economy is an estimated $28 to $30 million.

A second example has resulted in the sale of broiler parts to Egypt in recent months. The Egyptian Government had grave concerns that broiler parts were salvaged portions of birds which, because of disease or damage, were otherwise unfit for human consumption. The export council conducted a series of programs to help overcome this myth. Following discussions in Cairo, the export council brought a team to the United States comprised of the Deputy Minister of Agriculture, the Deputy Minister of Health, the Deputy Minister of Finance, to see the production of United States poultry parts.

After meeting with USDA officials and visiting several plants, these senior officials returned to Cairo and were able to get their office to change some of their rules and regulations.

An additional and important benefit of this team travel has been demonstrated by a change in requirements for poultry products being imported from the United States. The Egyptian visitors' confidence in the quality and wholesomeness of United States poultry has been so dramatically increased after seeing the plants and the USDA systems, that several tests which were previously required by the Egyptian Government have been dropped for United States poultry.

The easing of these testing requirements has allowed for more realistic and timely clearance of United States poultry products into Egypt, and of course, this has had a positive effect on United States poultry values.

This is a side note that is not in the text, but through the Export Enhancement Program, United States suppliers have contracted for 23,000 tons of chicken to be shipped to Egypt during 1986. The estimated revenue is approximately $25 million of that particular sale, and that is a concluded contract.

Mr. Chairman, these two examples of successful cooperator activities are typical of the work that needs to be done. It takes time. It is actually a process of educating government officials, businessmen and consumers of the benefits of buying wholesome, high-quality products that are produced in the United States.

The market development efforts of the Poultry and Egg Export Council are just beginning, and the world market presents many opportunities for our products. The U.S. share of the world market for poultry and eggs is only a fraction of what it was 10 years ago.

At this time the industry is looking at some of the greatest opportunities it has ever seen. It is a time when the value of the dollar is down; freight rates are the lowest, in many cases, that they have been in years; interest rates have moderated significantly, and product is available to provide steady and reliable supply to these export markets.

It is time that the United States recapture its share of the marketplace. This is difficult to do in the face of unreasonable trade barriers thrown up in the path of U.S. products and the subsidized competition. If we were competing in a world of free trade, quality of U.S. products and the ability of our industry to compete could stand on its own, but this is not the case.

Even though U.S. poultry and egg producers are highly efficient and have low costs, their products are systematically excluded from international markets, primarily because the trade barriers and the subsidies created by the European Economic Community. At those times in the past, when the trade barriers which impeded U.S. poultry exports have been relaxed, U.S. producers have obtained between 40 and 60 percent of the world markets for chicken meat and turkey meat.

Similarly, where market access has been available, U.S. egg producers have obtained more than 25 percent of the world trade in eggs. However, these levels of market penetration are more than double the current shares which unsubsidized U.S. poultry and eggs obtain when they must compete with the subsidized products of other exporting countries.

Exports have been a significant part of the prosperity for the poultry and egg industry until recent years. These export markets have been systematically taken from the United States through the erection of both tariff and nontariff trade barriers, and the subsidy of products for export to third countries.

These are unfair trade practices, I believe, and they have cost the industry some markets entirely and a significant share of many others.

The European market, which had been a major importer, has been lost entirely, except for Turkey, and that is rapidly disappearing through the application of tariff and nontariff barriers which have been erected through the Common Agricultural Policy.

In addition, the export restitutions offered by the EEC for the export of agricultural products to third countries around the world has reduced U.S. markets even further.

In other areas of the world, the industry must also face barriers. Korea has placed a ban on the importation of poultry, as has West Malaysia and other countries. Egypt bans the importation of eggs.

These are examples of barriers which will take the joint effort of the U.S. Government and the industry to overcome. Tariff barriers are also in place in countries such as Japan, but through successful negotiation, these barriers are being slowly reduced, but in many other countries, that has not been accomplished.

Misinformation itself is a barrier to U.S. trade. An example is an announcement made by the Minister of Environment of Singapore recently. He announced that all imported food products from a list of countries including the United States would be stopped and held from 4 to 5 days for radiological testing as a result of the Chernobyl nuclear accident.

The U.S. industry, which had a significant amount of product under contract, some of which was in transit, would be affected by a decision to limit the radioactive tolerance of any imported food product to zero.

The significance of that is that hundreds of tons of U.S. poultry products already in shipment to Singapore and many other hundreds of tons being prepared for shipment would have to be held or recalled, significantly depressing the price of product here in the United States, and loss of sales represented by the time it would normally take to fully understand the regulations.

The U.S.A. Poultry and Egg Export Council, having an office in Singapore, was in a position to work quickly and checked with the Singapore Government, and in fact, found that the regulation did not apply to the imported foodstuffs, specifically not to poultry and meat products of United States origin.

Mr. Chairman, there are many examples of areas where cooperators such as the export council are able to correct misinformation, develop and expand markets through negotiation, and the creation of demand. As I said earlier, the work of the cooperators is more important now than it has ever been in the past. It is an effective means of expanding U.S. trade for agricultural commodities, strengthening the U.S. agricultural economy and helping to reduce trade deficits.

Should U.S. Government participation and support of this program be withdrawn or reduced, we would be forced to reduce the size of the effort.

The effect would be to reduce the ability of U.S. agriculture to compete with unfair trade practices which have become common in recent years. It would remove the frontline fighting of the United States' rightful share of the international market for poultry, eggs and agricultural products.

I ask you to please consider seriously the effect on U.S. agriculture if we do not maintain our ability to work in the international marketplace.

Thank you for your time.

Senator BOSCHWITZ. How much is exported in eggs, and how much is exported in poultry, in dollars?

Mr. BOYD. The exact numbers?

Senator BOSCHWITZ. Roughly.

Mr. BOYD. I do not have those numbers off the top of my head. I can give you specific countries. The biggest poultry importing country is Japan, and they imported last year just over 40,000 tons. Japan is our biggest parts market, parts being an increased-value item.

I would like to note that 3 years ago, the United States exported 60,000 tons to Japan. The following year, it reduced to about 46,000 tons, and this past year, it was down to approximately 40,000.

As for total worldwide exports, I am sorry I do not have that, Senator.

Senator BOSCHWITZ. Would you submit that, please, for the record in both eggs and poultry—perhaps your staff man knows.

Mr. BOYD [conferring with staff]. $400 million for the year.

Senator BOSCHWITZ. $400 million. How much in eggs and how much in poultry?

Mr. LANGWICK. I do not know the exact dollar breakdown between the two off the top of my head.

Senator BOSCHWITZ. How much in turkeys? What percentage of the production of the industry is exported in eggs, what percentage of the industry is exported in poultry?

Mr. LANGWICK. I could submit those figures, Senator.

Senator BOSCHWITZ. You come here to testify on exports, and I hoped you would be prepared.

Would you be kind enough to tell me what is it in tons; do you know what it is in tons? What percentage of our exports go to Japan, in that case?

Mr. BOYD. In tons, of chicken?

Senator BOSCHWITZ. Chickens.

Mr. BOYD. Japan does not import eggs, or at least, a very, very minimal amount. Japan does import it, but it is a minimal amount and also very spotty.

Looking at the January through March 1985 exports of chicken parts, as an example—this is for 3 months—it is 42,000 tons. I have got specific figures, but not annual figures.

Senator BOSCHWITZ. That is a total?

Mr. BOYD. Yes, sir, that is total. Against in 1986, 50,000 tons for the same period.

Senator BOSCHWITZ. So that our exports are up this year?

Mr. BOYD. Yes, sir.

Senator BOSCHWITZ. In chicken parts.

Mr. BOYD. In chicken parts. Now, in the case of whole turkeys, it was 401,000 tons against 501,000 tons for the current year. So that is up about 25 percent. I am talking for a quarterly period.

Senator BOSCHWITZ. We export nearly 10 times as much in turkeys as we do in chicken parts?

Mr. BOYD. No, sir. I am sorry. John, is this 42 million——

Senator BOSCHWITZ. Why don't you—I like to have a sense of what the numbers are and rather than poke around through them, why don't you drop me a line, and I will make it part of the record. That is, over the years, what have the exports been in eggs, what have the exports been in chickens, what have the exports been in poultry, what the principal countries have been that we have exported to; and also, what percentage of the overall production of the industry—what are the systematic barriers.

In your testimony, you talk about, "* * * systematically excluded from international markets primarily because of trade barriers and subsidies."

Would you describe the nature of the barriers and who erects them?

Mr. BOYD. Yes, sir, I can describe some of the barriers. As an example, specifically in poultry, the EEC has a system of sending their inspectors to this country to inspect specific processing plants that wish to export to the EEC. Their inspectors change the requirements, it appears, at will. In fact, one of our producers from Pennsylvania who had enjoyed for about 5 years exports of processed product to the United Kingdom within the past year had inspectors from the United Kingdom come in and tell them that they no longer could export until they added facilities.

Senator BOSCHWITZ. The European Community by and large is an exporter of poultry as you have indicated in your testimony.

Mr. BOYD. Yes, sir.

Senator BOSCHWITZ. Why are they importing our poultry or parts, whatever?

Mr. BOYD. There would be an imbalance of certain parts, certain products. They may not have a producer that can cook products in a certain way. We actually establish markets for some uniqueness about a particular product.

Also in Japan, I might point out, with Japan still being the biggest importer of United States products, excluding the spot shipload sales to the Mideast, the Japanese produce about 93 percent of their consumption. However, they have to import all of the grain. So they grow a larger bird, creating boneless meat, and the United States is able to enjoy part of that market because it produces smaller birds and sells bone-in product.

So it is a niche type of market, as in the United Kingdom with processed products.

Senator BOSCHWITZ. And also in your letter that you address to me, I may have asked, the larger countries that do business with us; and are there other barriers that you would like to describe, other than Europe?

Mr. BOYD. Yes, sir. I would like to mention a couple of examples. I was in Japan about 3 years ago, and at that particular time, the cost of producing a chicken in the United States was in the middle forties per pound. At that particular time, that particular week in fact, our Government announced an increase in the IMF loan fund amount to Brazil. And that same week, Brazil had chickens stored in Japanese freezers that it was selling out of storage at 41, 42 cents a pound.

I do not think Brazil is that much more efficient than our own producers, and I feel that that was an unfair trade issue.

Senator BOSCHWITZ. I might point out to you that our Government did not announce an IMF loan. IMF is not an agency of the U.S. Government. We have a share of 21, 22 percent of the IMF from the standpoint that that is how much of its capital we have, but an IMF loan, you regard as unfair competition?

Mr. BOYD. No, sir. I am saying that in the case of Brazil, the sale of their products into the same markets that the United States is selling at below cost is an unfair competition situation now. The IMF point that I was trying to make is that we wonder if the Brazilian Government is using some of the IMF loan funds to create some sort of subsidy to their industry.

Senator BOSCHWITZ. Well, it could be; money is fungible. It is very difficult to figure that one out.

Mr. BOYD. Yes, sir.

[The following letter from Mr. Boyd was subsequently received by the subcommittee:]

U.S.A. POULTRY & EGG EXPORT COUNCIL,
July 16, 1986.

The Honorable Senator RUDY BOSCHWITZ,
Subcommittee Chairman, Committee on Agriculture, Nutrition and Forestry, Subcommittee on Foreign Agricultural Policy, Russell Senate Office Building, Washington, DC.

DEAR MR. CHAIRMAN: In accordance with your request, I am enclosing a list of statistics covering the U.S. exports of poultry and egg products. I respectfully request that this letter, along with the statistic sheets, be made a part of your committee record.

May I point out that generally all products, including turkey, declined in export totals for the five year period. The USA Poultry & Egg Export Council, as I mentioned before, was formed during 1984 but due to the time it takes to build momentum, I feel it became effective only during 1985. So far, 1986 percentages are increasing in terms of total products exported.

I would like to point out the reason these numbers were not available during the testimony. Specifically, we received Senator Helms' letter on Friday, June 13 which indicated our testimony needed to be in the hands of your staff on Monday morning, June 16 by 9:30 A.M. Mr. Chairman, I apologize and regret that our written presentation was drawn together hastily and did not include historic statistics.

The Poultry & Egg Export Council is keenly aware that we have a major task to regain market share in the international market place for all the products we represent. We do hope that Congress will endorse the continuation of this effort.

Sincerely,

E.M. Boyd, Jr.,
Chairman.

U.S.A. POULTRY AND EGG EXPORT COUNCIL, U.S. EXPORTS 1974–85

[In thousands of dollars]

Year	Total chicken	Total turkey	Total other poultry	Total eggs	Total feather and down	Total live	Total exports
1974	45,562	23,467	4,948	28,846	2,721	22,289	127,833
1975	56,433	30,038	6,277	31,043	3,097	24,840	151,728
1976	125,996	39,839	10,533	36,936	9,689	31,285	254,278
1977	143,526	27,949	9,408	58,839	26,347	31,155	297,224
1978	164,617	34,178	11,310	72,337	14,762	37,259	334,463
1979	212,368	37,123	15,325	73,697	17,460	42,013	397,986
1980	319,305	46,177	23,740	115,556	34,153	48,490	587,421
1981	404,816	44,924	20,104	175,220	47,457	59,753	752,274
1982	244,558	34,029	12,258	111,660	37,030	57,222	496,757
1983	219,929	28,233	12,320	56,216	33,415	60,411	410,524
1984	228,194	16,360	15,557	52,260	19,784	50,770	382,925
1985	201,598	15,005	19,012	68,808	23,264	55,927	383,614

Data Source: USDA/FAS.

U.S.A. POULTRY AND EGG EXPORT COUNCIL, PRODUCTION AND TRADE, POULTRY MEAT

[MT—thousands]

Year	Production			Export Trade		
	World	United States	Percent, U.S.	World	United States	Percent, U.S.
1981	22,329	6,984	31	1,836	375	20
1982	22,860	7,037	31	1,738	261	15
1983	23,345	7,192	31	1,700	225	13
1984	23,848	7,415	31	1,555	201	13
1985	24,614	7,739	31	1,536	183	12

Data Source: USDA/FAS.

U.S. EXPORTS AS PERCENT OF U.S. PRODUCTION, POULTRY MEAT

[MT—thousands]

Year	U.S. production	U.S. export trade	Percent
1981	6,984	375	5
1982	7,037	261	4
1983	7,192	225	3
1984	7,415	201	3
1985	7,739	183	2

Data source: USDA/FAS.

PRODUCTION AND TRADE, EGGS

[Millions of pieces]

Year	World	United States	Percent, U.S.	World	United States	Percent, U.S.
1981	341,995	69,896	20	16,477	2,810	17
1982	345,183	69,594	20	16,628	1,699	10
1983	344,599	67,871	20	16,101	1,030	6
1984	347,816	68,392	20	16,029	862	5
1985	352,439	69,840	20	16,471	784	5

Data source: USDA/FAS

U.S. EXPORTS AS PERCENT OF U.S. PRODUCTION, EGGS

[Millions of pieces]

Year	U.S. production	U.S. export trade	Percent
1981	69,896	2,810	4
1982	69,594	1,699	2
1983	67,871	1,030	2
1984	68,392	862	1
1985	69,840	784	1

Data source: USDA/FAS

U.S.A. POULTRY AND EGG EXPORT COUNCIL

Major importers, poultry meat: EEC members [2], U.S.S.R.[2], Saudi Arabia [2], Iraq [2], Egypt [1], Japan [1], Hong Kong [1], Singapore [1], Carribean Region [1], Canada [1], Switzerland [2], and Mexico [2].

Major importers, Eggs: EEC members [2], Algeria, Japan [1], Hong Kong [1], Switzerland [2], U.S.S.R.[2], Spain [2], Carribean Region [1], Canada [1], and Mexico [2].

[1] Currently import from the U.S.

[2] Formerly major U.S. importers.

Data source: USDA/FAS.

Senator **BOSCHWITZ**. All right. We are now going to turn to Mr. Easter, of the California—I say "almond", but you say "almond"——

Mr. **EASTER**. I do not really care how you pronounce it, sir, just so you eat it.

Senator **BOSCHWITZ**. Yes, I like them.

All right, Mr. Easter.

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT, CALIFORNIA ALMOND GROWERS EXCHANGE, SACRAMENTO, CA

Mr. **EASTER**. In fact, it is somewhat of a controversy in California. A lot of our producers say "almonds" and some others say "almonds", so as I said before, just so they are consumed regularly, that is our main concern.

I represent, as you stated, the California Almond Growers Exchange, which is a cooperative marketing organization in California. We handle about 60 percent of the almonds grown in California and all of the commercial production of almonds in the United States comes from California.[5]

Senator BOSCHWITZ. Is there a marketing order associated with almonds?

Mr. EASTER. Yes, there is. There is a Federal marketing order that is operative in almonds for promotional efforts, research, and some volume regulation.

Senator BOSCHWITZ. I did not quite understand that answer. Is there a marketing order that deals with how many almonds are marketed?

Mr. EASTER. Well, the order can affect the quantity marketed from year to year. It depends on whether or not certain provisions are operative. For example, over the last 2 years, there have been some provisions that have provided a part of the crop be used in market development purposes for new markets versus what you might call traditional markets. This year, we operated with 10 percent of the crop allocated to new market development, versus the other 90 percent being marketed in traditional channels.

Senator BOSCHWITZ. What is the total value of the almonds?

Mr. EASTER. Well, the total farm value is somewhere in the neighborhood of, probably this past year in the neighborhood of $400 million; wholesale value of probably closer to $600 million. And of that, about 60 percent of it is exported.

Senator BOSCHWITZ. Is that right? And 60 percent is grown in California?

Mr. EASTER. No. One hundred percent of it is grown in California.

Senator BOSCHWITZ. And the 5,000 growers——

Mr. EASTER. Yes. Those are grower members of our organization. We have something over 5,000 growers. And probably in total in California, there are about something in the neighborhood of 8,000 producers.

Senator BOSCHWITZ. All right. Thank you for that fact. Go right ahead, please.

Mr. EASTER. The exchange has been in the international marketing business for a number of years, but since about 1969, we have marketed more than half of our production internationally. And in regard to that marketing effort, we have worked closely with the U.S. Department of Agriculture, specifically, the Foreign Agricultural Service, and since the late sixties, have conducted an export incentive program under the auspices of Foreign Agricultural Service.

This program is slightly different than the cooperator program you heard discussed here today in that it is a program aimed at promoting branded goods produced in the United States and marketed overseas. Under this program, the Department will provide up to half of the funds for a given promotional program.

The exchange has operated this EIP Program primarily in Japan since 1969, at which time it was one of the earliest of such programs that was put into effect.

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[5] See p. 325 for the prepared statement of Mr. Easter.

I might give you a little background about the Japanese market. Oftentimes, people are confused and feel that almonds are a natural or traditional food in Japanese cooking. That is not the case. Actually, they were virtually unused until the late forties, early fifties. At that time, we began introducing California almonds into Japan primarily for use in candies and baked goods. The initial introduction went well, but development of the market then stagnated.

So in the late sixties, in conjunction with the Foreign Agricultural Service, we began an extensive promotional program of almonds for use in baked goods and home cooking, and then eventually in snack foods such as the roasted and salted almonds for snack usage.

That program has proved to be very successful and has helped us to expand this market from some five to six million pounds in the late sixties, probably valued at that time somewhere around $4–$4.5 million, to the point now in the past year, our exports will exceed 36 million pounds with a value of nearly $50 million.

So this growth has been primarily due to the cooperative program that we have conducted in promoting almonds in Japan in conjunction with the Foreign Agricultural Service. We found it to be very successful. We have been fortunate in that we have seen expansion of this market over the years through this program and have not had any, shall we say, setbacks in the program, and it has gone very well for us.

We are looking at other opportunities in this type of marketing effort. In fact, we have begun a similar program in Korea which we believe will have outstanding potential for development of and sale of United States almonds. In Korea, we were hampered somewhat by an absolute prohibition initially and then eventually, an effective quota on almonds, which was finally removed this last July, and since that time, we have been able to develop again a cooperative program to promote almonds in Korea. We are still hampered there by a 59-percent duty against almonds, but we believe that the promotional program will help us to overcome that, and at the same time, the program also is focusing attention of U.S. negotiators on the need to eliminate that trade barrier.

We think that there are a number of other additional opportunities for products such as almonds, which are a relatively high-value product, and some of our commodities such as the roasted and processed almonds are a value-added product. We believe there are substantial opportunities for further sales of this product in other parts of the world.

One of our largest markets is the European Common Market, which has been an excellent one for us for a number of years, but we are now beginning to develop the snack market in those countries, which has been heretofore rather undeveloped. There has not been a traditional snack usage there.

Senator BOSCHWITZ. I notice in your testimony that you market these through the Coca-Cola Co.; in conjunction with distributing their bottled Coca-Cola, they distribute almonds, so that they are sold in little bags; is that it?

Mr. EASTER. That is correct. This is in the Japanese market. It is really in conjunction with the Japanese-owned Coca-Cola Bottling

Cos. There are 17 of them in Japan. And they distribute the almonds in either cans or foil bags to the various outlets in Japan along with the Coca-Cola. It has been very successful because of its circumvention of the very detailed and long lines of distribution in Japan, and we were able to overcome this through use of that effective distribution system, where we can go right to the Coca-Cola Cos., and they go directly to the retailers; whereas before, there were perhaps four or five different steps to go through before you could obtain this distribution.

So as I say, we have found that to be very helpful to us, and it has given us the incentive to look at other markets around the world to see if there are similar promotional programs and improvements that can be made.

We are always working in conjunction with the Foreign Agricultural Service, also, to identify and eliminate trade barriers. We have commented on the barrier with regard to Korea in our prepared testimony, which has been submitted. There are a number of other areas around the world that we have not specifically identified, but we have been able to work through the Department to pursue these efforts to reduce trade barriers.

We have one, for example, going on now in India, where they have in excess of a 100 percent duty in a licensing system against almonds. It does not directly relate to the cooperator or incentive program, but it does point out the importance of trade barriers to our products in the United States, that if we cannot overcome these kinds of trade barriers, it is difficult to expand these markets—in some cases, impossible to expand them.

So we do appreciate your interest in this area of trade barriers, and we feel that it is extremely important that the United States take an aggressive stance in this sector.

As far as our immediate concerns in the area of trade barriers, we see that the tools are available to negotiate changes in these barriers and urge the United States to proceed, to press on these issues. We think the Executive has the authority to conduct these negotiations, and we are anxious to work with them to do so.

As far as our specifics of our export incentive program, we would be happy to answer any questions, and I submit the statement which more fully details that program for the record.

Thank you, sir.

Senator BOSCHWITZ. Good, good. That was interesting. I did not know much about almonds.

Now, we turn to Mr. Buchanan. Mr. Buchanan, please proceed, if you will.

STATEMENT OF RICHARD W. BUCHANAN, CHAIRMAN, BOARD OF GOVERNORS, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. BUCHANAN. Thank you, Mr. Chairman.

My name is Richard Buchanan, and I would like to thank you for giving me this opportunity to appear before your committee today.

I come here in three roles. First, I am president of Buchanan Lumber Co. of Montgomery, AL. We are hardwood manufacturers, marketers and exporters of hardwood lumber.

Senator BOSCHWITZ. What kind of hardwood down there—gum, tupelo?

Mr. BUCHANAN. Oak, ash, beech, birch, sycamore, elm, hackberry, et cetera, et cetera, et cetera, all gums, all oaks, that type of thing.

I am also chairman of the Forest Products Advisory Committee of the National Commission on Agricultural Trade and Export Policy. And finally, as Senator Heflin mentioned, I am chairman of the board of governors of the National Forest Products Association.[6]

Senator BOSCHWITZ. How do you attend to your business?

Mr. BUCHANAN. Well, that is a good question. I would answer that—hardly—let me put it that way. Hardly.

I will concentrate my testimony today on the market development/cooperator program and what it means to the wood products industry.

NFPA joined the cooperator program in 1979, at a time when increased exports were taking place. The United States is the largest producer of softwood plywood and the second largest producer of softwood lumber—Russia being the largest. We were looking for ways that we could stimulate promotional activities overseas for all types of wood products.

After exploring several Government programs, we found exactly what we were seeking in the FAS activities. We chose this program primarily because it was tailored to industry's needs rather than making the industry conform to a prepackaged program.

In fiscal 1980, NFPA joined with only two other industry associations in a $125,000 program, targeting mainly Europe. Today, industry and Government are spending over $5 million, and there are 13 wood products associations that are now involved.

During the period from 1979 to 1986, wood products exports reached a peak of about $3.7 billion in 1980 and then dropped off to about $2.7 billion now. The decline of these exports plummeted, we feel, due to a high U.S. dollar and of course, worldwide recession.

Our goal by the 1990's is to increase those exports from $2.7 to at least $7 billion.

We believe the FAS program is perhaps the most important factor that prevented a sharp decrease in wood exports in the first part of the eighties. This program helped concentrate the industry's export promotion drive and has provided our very diverse industry with an opportunity to plan ahead for the next several years.

We recently in the National Forest Products Association formed a Hardwood Export Trade Council, and with FAS' help, we have been able to more effectively promote our products both in Europe and Asia. Incidentally, we have representatives in both areas.

Most importantly, however, the FAS staff in Washington and the agricultural attaches overseas are a vital link to key market information which more effectively guides our export development efforts.

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[6] See p. 328 for the prepared statement of Mr. Buchanan.

Although we have been promoting wood products overseas for several years now, our industry's market development effort is far from being completed. We have just really begun in Latin America.

China is another area which we feel will take a long-term marketing effort. I mentioned Latin America. Most of the construction down there has been other than lumber construction. We feel that there is a real opportunity to develop wood construction housing in Latin America, and we have recently had demonstration houses, and are providing assistance and information on two-by-four construction.

In Britain, most homes there have been built notoriously out of masonry and concrete. We have increased our frame construction business in housing in Great Britain from 5 percent of the market to over 25 percent in the last 10 years. Currently the industry with the help of FAS is combating adverse publicity in England about this type of construction.

Senator **Boschwitz**. What is the adverse publicity?

Mr. **Buchanan**. Well, with the deterioration factor of wood construction, that the houses are not as strong. Since they have always built stone and masonry houses, wood has a pretty hard chance of getting in. We do have some deteriorating properties in wood, but in the cool English climate, I would say they would be much less than they are in the United States.

Senator **Boschwitz**. Not only that. It is not as damp.

Mr. **Buchanan**. Yes.

Senator **Boschwitz**. Have you ever been in one of those English houses? They are very damp.

Mr. **Buchanan**. Right, they are.

Also in Europe, where furniture manufacturing is big business, exports of U.S. hardwoods have increased by more than 50 percent in the last 5 years.

Senator **Boschwitz**. What has fallen off? If hardwoods went up 50 percent, what proportion of the exports does hardwoods have, and what proportion does softwoods have?

Mr. **Buchanan**. Of the market?

Senator **Boschwitz**. Yes.

Mr. **Buchanan**. The total market, in dollars or footage or what?

Senator **Boschwitz**. Is it $3.7 or $3.9 billion worth?

Mr. **Buchanan**. I think hardwood is around $400 million presently.

Senator **Boschwitz**. Oh, of the $2.7, so that softwoods is far and away the bigger part of the market.

Mr. **Buchanan**. Yes, absolutely.

Senator **Boschwitz**. So that fell off, and hardwoods picked up.

Mr. **Buchanan**. Hardwoods have really picked up in the last year or two. And with the decreasing value of the dollar, we feel like we have a real opportunity to increase our markets—with promotion.

Senator **Boschwitz**. Yes. That is your next sentence.

Mr. **Buchanan**. FAS support has been especially successful in the trade talks area with Japan. The so-called market-oriented sector-specific or MOSS talks, with the assistance of FAS Forest Products Division and the outstanding leadership of Undersecretary of Agriculture Dan Amstutz, the forest products industry was able to break through after many years the high Japanese tariffs on value-added products.

Senator BOSCHWITZ. I know that he was very pleased about that. He spoke with me about that, and was very pleased.

Mr. BUCHANAN. In addition, the Japanese agreed to lower some of their nontariff tariff barriers and also help increase the demand for wood products in Japan. As part of this latter agreement, the U.S. industry built a three-story multipurpose demonstration house in Japan, using the latest U.S. wood technology and products. This structure will serve as a central point to promote all U.S. wood products, hardwoods as well as softwoods, in Japan. Again, without the excellent assistance of the FAS forest products staff and Dan Amstutz, we would not have been able to accomplish this in such a short period of time.

We have not been as successful in eliminating the European Community tariff and quota on softwood plywood. Currently, the EC allows only 678 million square feet of plywood to enter duty-free annually. Anything above that quota faces a 10 percent tariff.

The American Plywood Association has tried again and again to convince the European countries that they should expand their duty-free quota since demand in these countries far exceeds supply. For instance, the quota will be exceeded by early spring, not later than mid-summer, in most countries. The EC has refused, though, to expand the quota because of France's opposition to any changes. France, incidentally, is trying to further their own plywood industry.

Senator BOSCHWITZ. We know about France in this committee.

Mr. BUCHANAN. Yes, good.

Senator BOSCHWITZ. What kind of wood do they have over there?

Mr. BUCHANAN. Well, they have a lot of oak and beech. They do have some kind of softwood trees, but they are primarily in the hardwood area.

They have given the hardwood industry fits on oak wilt over the years, and I think they were the people who started our oak wilt problems. We have never had a case of oak wilt, and the Europeans have all said they were afraid of a similar thing happening with their oak that happened to their elm, with the Dutch elm disease. But there has never been a case of any kind of oak wilt in Europe, and the European Community has imposed pretty stern restrictions on the export of oak from this country to Europe—especially France.

Last but not least, but probably fresh in everybody's mind here, is the U.S. wood products industry's problem with Canada. And I would like to say that I will not address or get into that problem, but will be glad to submit a written statement to any questions that you might have.

Senator BOSCHWITZ. Fine.

Mr. BUCHANAN. In this time of increased trade tensions, our industry is getting ready for a new trade round under the GATT. On top of our industry's agenda is the elimination of duties on value-added products. Most of our processed products still face stiff tariffs throughout the world, while U.S. tariffs have been substantially reduced.

In addition we would like to see a strengthening of the GATT subsidies code making subsidies on natural resources illegal under international trade law.

Timber is an agricultural product as well as a renewable resource. We in the United States have an abundance of high-quality, desirable timber. We feel that with proper management and assistance from FAS and its promotion, we will not only be able to greatly increase our exports, but also help with our balance of trade.

Mr. Chairman, that concludes my statement, and I am ready to answer any other questions that you might have.

Senator BOSCHWITZ. I wonder if you would submit for the record a letter substantiating the sentence on page 6, "Most of our processed products still face stiff tariffs throughout the world, while U.S. tariffs have been substantially reduced." Why don't you write me a letter summarizing the stiff tariffs around the world and how our tariffs have been reduced. We would find it useful to have that type of comparative statement.

Mr. BUCHANAN. All right.

Senator BOSCHWITZ. That concludes this panel. It was very interesting and most helpful. I know more about almonds now than I did before. Actually, I have a pretty good working knowledge of lumber, and I have bought a lot of hardwood lumber from the South in my day. Thank you very much for coming.

[The following information was subsequently received by the committee:]

NATIONAL FOREST PRODUCTS ASSOCIATION,
Washington, DC, September 10, 1986.

WARREN B. OXFORD,
Senate Committee on Agriculture, Nutrition, and Forestry,
Russell Senate Office Building, Washington, DC.

DEAR MR. OXFORD: As requested by Senator Boschwitz during the June 17, 1986 hearing before the Subcommittee on Foreign Agricultural Policy, we would like to submit for the record the enclosed summary of worldwide tariff barriers that face U.S. wood products.

Although this summary does not include a comparison with U.S. wood tariffs, it can be stated that in general our tariffs are quite low—the majority being less than 10 percent. The only exception is the U.S. duty on softwood plywood (20 percent) which mainly affects Canadian imports. This high tariff has been maintained because Canada to date has not been willing to change its plywood standards on D-grade veneer which effectively shuts out about 70 percent of U.S. plywood production.

For your information, I also have enclosed two white papers—one on Korea, and the other on Taiwan—which include comparisons of U.S. with Korean and Taiwanese tariffs.

If you have any additional questions, please feel free to contact me at 463-2723.

Sincerely,

INGE HOLLOWAY,
Manager, International Trade Policy.

EXHIBIT I.—TRADE BARRIER REDUCTION PRIORITIES AS OF MAY 1, 1986

Ranking for NFPA action	Country/barrier	Tariff rate [1] (percent)	Priority	NFPA involvement	Priority ranked by
1	Japan/Tariffs:				
	SW Plywood	10	A	H	APA
	Veneer	5	B	H	NFPA
	Particleboard	8	A	H	NFPA/APA
	Pine lumber				

EXHIBIT I.—TRADE BARRIER REDUCTION PRIORITIES AS OF MAY 1, 1986—Continued

Ranking for NFPA action	Country/barrier	Tariff rate [1] (percent)	Priority	NFPA involvement	Priority ranked by
	—finished	8	A	H	WWPA/NFPA
	—rough	4.8	A	H	WWPA/NFPA
	Laminated Lumber	15	A	H	NFPA
	MDF	3.5	C	H	NFPA
1	European Community/Tariffs (including Spain and Portugal):				
	SW Plywood	[2] 10	A	H	APA/NFPA
	Lumber finished	4	C	L	SFPA/NFPA
	Veneer	6	A	H	FH/NFPA
	Particleboard	10	A	H	NFPA/APA
	MDF	10	A	H	NFPA
	Plant health requirements:				
	Oak lumber		A	H	HETC
	Oak logs		B	M	HETC
1	Canada/Tariffs:				
	Moulding Millwork	7–20	A	H	NFPA
	SW Plywood	15	C	M	NFPA
	Particleboard	4	B	H	NFPA
	MDF	9.2	B	H	NFPA
	Restrictive Codes: SW Plywood Standard		A	M	NFPA/APA
1	Republic of Korea/Tariffs:				
	Lumber	20	A	H	NFPA
	Plywood	20	B	H	NFPA
	Veneer	20	A	H	FH/NFPA
	Particleboard	25	B	H	NFPA
	Logs	5–10	C	H	NFPA
1	Mexico/Tariffs:				
	Lumber: Rough	10	A	H	SFPA/NFPA
	Finished	20	A	H	SFPA
	SW Plywood	50	A	H	APA
	Particleboard	70	A	H	NFPA/SFPA
	Veneer	20	A	H	NFPA/SFPA
	Import Licenses		A	H	NFPA/SFPA
3	Taiwan/Tariffs:				
	Lumber	1.25	C		NFPA
	Plywood	15	B	M	NFPA
	Veneer—SW	2.5	C	M	FH/NFPA
	Particleboard	15	A	H	NFPA
	Moulding/Millwork	20–30	A	H	NFPA
3	Columbia/Tariffs:				
	Lumber:				
	Finished	25	B	M	SFPA/NFPA
	Rough	35	B	M	SFPA/NFPA
	SW Plywood	55	A/B	H	APA/NFPA
3	India/Tariffs [3]:				
	All products	10–100			
	Auxiliary duty sometimes applied	30–40			
4	Algeria/Tariffs:				
	SW Plywood	25	C	M	APA
	Lumber—finished	25	C	M	NFPA
	Veneer	25	A	M	NFPA
	Caribbean Common Market (Barbados, Guyana, Jamaica, Trinidad and Tobago, Belize, Leeward and Windward Isles)/Tariffs:				
	Lumber	[4] 20	A	H	SFPA/NFPA
	SW Plywood	20	A	H	APA
	Particleboard	20	A	H	NFPA
	Moulding/Millwork	45	B	H	NFPA
2	People's Republic of China/Tariffs:				
	Lumber	5–7.5	A	H	NFPA
	Plywood	12	A	H	NFPA/APA
	Veneer	25	A	H	NFPA

EXHIBIT I.—TRADE BARRIER REDUCTION PRIORITIES AS OF MAY 1, 1986—Continued

Ranking for NFPA action	Country/barrier	Tariff rate [1] (percent)	Priority	NFPA involvement	Priority ranked by
2	Venezuela/Tariffs:				
	Lumber—rough	30	A	H	SFPA/NFPA
	SW Plywood	70	A	H	APA
	Particleboard	60	A	H	NFPA/APA
	Veneer	35	A	H	FH
2	Australia/Import licenses, tariffs:				
	Finished Lumber	15	A	H	WWPA
	SW Plywood	25	B	M	APA
	Particleboard	26	B	M	NFPA
	Moulding/Millwork	15	B	M	NFPA
2	Egypt/Tariffs:				
	Lumber—finished	50	B	M	WWPA
	SW Plywood	35	B	M	APA
	Veneer	15	B	M	FH
	Particleboard	25	B	M	NFPA

[1] Tariff rates shown represent the lowest rate to which each country has agreed to drop its tariffs.

[2] Over 600,000m3.

[3] Tariff rate have reportedly recently been substantially lowered and may be subject to further liberalization.

[4] Approximately.

Notes.—Ranking for NFPA Action 1—near term major action to 4—No action at present. Priority: A—highest, B—medium, C—lowest. Priority Ranked by: Indicates primary assocation doing the ranking. NFPA Involvement: H—Heavy, M—Medium, L—Low, N—None.

Strengthening U.S./Korea Wood Products Trade [7]

This paper explains why further reductions in and eventual elimination of Korean tariffs on wood products would be beneficial both to the Republic of Korea and the United States. Such action is already supported by certain industry sectors in Korea, construction and furniture manufacturing.

The Korean government in 1984 formalized a major package of phased tariff reductions for wood products as a step toward long-term liberalization of its dynamic market. Other minor modifications in wood tariffs have been made since that time.

The American wood products industry supported and was appreciative of these Korean moves toward a more open market place. However, the remaining Korean duties are still prohibitively high—generally 20-30 percent for processed wood products [8] and some reductions take up until 1988 to attain. Thus, the effect on U.S. exports will be minimal.

The trade in wood products between the United States and Korea already is meaningful and growing. The Republic of Korea in 1984 was the American wood products industry's fifth largest customer taking $106 million in U.S. exports. These exports, along with the tariff rates for each product, are shown in the table on the following page.

Korea, which has very limited, though recovering timber resources, is still highly dependent on outside sources for its raw materials. The United States is supplying approximately 27 percent of Korean wood imports, including 63 percent of its softwood logs.

Korean imports of processed wood products, however, account for a minimal share of its domestic consumption. High tariffs designed to protect domestic manufacturers of products such as lumber and plywood, are a major reason for this.

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[7] Prepared by the National Forest Products Association, 1619 Massachusetts Ave., NW, Washington, DC 20036, USA. Phone: (202) 797-5817; Telex: 140950 NFPA DC.

[8] "Processed" wood products as defined in this paper are all wood products other than logs.

TABLE 1.—U.S. TRADE WITH THE REPUBLIC OF KOREA

Wood product	Korean tariff number	U.S. exports (in millions of dollars) 1978	U.S. exports (in millions of dollars) 1984	Korean tariff rates [1] 1986 (percent)
Softwood logs	4403.02	80.4	84.6	5
Hardwood logs	4403.0602, 4403.04	1.5	3.1	5–10
Softwood lumber:				
Rough-squared	4404.1	2.4	5.1	5
Over 5mm, not planed	4405			20
Planed, grooved	4413			20
Hardwood lumber:				
Rough-squared	4404.0602, 4404.03	(4)	2.1	5–10
Over 5mm, not planed	4405			20
Planed, grooved	4413			20
Softwood veneer	4414		(4)	20
Hardwood veneer	4414	.3		20
Softwood plywood	4415	(4)		[2] 30
Particleboard	4418	(4)	3.4	[3] 20
Other products		1.1	7.7	Mixed
Total		85.7	106.0	

[1] If it can be documented that the material reported has been used in an exported product, the duty may be rebated.
[2] 1988 rate: 20 percent.
[3] Special rate for up to 100,000m ^{3}.
[4] Under $50,000.

Korean wood exports to the United States have been primarily hardwood plywood. Korea faces an American tariff of only 8 percent [9] on these products.

Until recently America was Korea's largest plywood customer. However, its share of the U.S. market dropped from 49 to 10 percent as exports to the U.S. dipped from $214 million to $8.0 million between 1978 and 1984. The Korean share of the world plywood market has dropped concurrently. This decline is due to the growing competitiveness of other Asian suppliers with major timber resources. Indonesia, for example, is combining a rapid buildup of its manufacturing capability for plywood with an increasingly restrictive policy on the export of logs.

REASONS FOR FURTHER TARIFF REDUCTION

Korea is one of the most dynamic of the newly industrialized countries. Its growth rate in gross national product has regularly been near the top of newly industrialized nations. Moreover, Korea's government and businesses are strong believers in free enterprise and healthy competition. These reasons alone argue for moving more rapidly to full market liberalization.

More specifically, eliminating tariffs on most wood products would in turn strengthen:

The Korean domestic economy.

Korean access to forest products raw materials.

And the US/Korean trading relationship.

In addition, it could be accomplished with minimal, if any, impact on domestic producers.

Strengthen domestic economy

The most important reason for eliminating wood products tariffs is that such action is consistent with the country's objectives for economic growth. Korean consumers, wood users and the overall economy would benefit from such action.

Construction: One of the driving forces behind Korean economic growth is construction. For example, it has been said that every square block in Seoul is undergoing some type of building; furthermore housing construction is projected to increase at a 20–30 percent annual rate over the next several years. Maintaining high tariffs on inexpensive and flexible wood building materials is inconsistent with such activity.

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[9] Final MTN rate to be phased into place by 1987. Prior tariffs on these products were 12–20 percent.

Domestic production of wood building products, particularly when supported almost entirely by imported raw materials, cannot economically meet this demand. Eliminating duties on high-strength wood beams for heavy duty applications, U.S. dimension softwood lumber and construction plywood can only benefit the Korean economy. Lowered costs on the latter two items, for example, would encourage systemized low cost engineered construction methods (the "2x4" system). This American approach to building, which uses standard sizes of lumber and plywood, is being increasingly adopted throughout the world. The U.S. wood products industry is ready and willing to help Korean builders in its adaptation to their market.

However, tariffs on these building products are currently high—20 percent for softwood lumber and 30 percent for plywood. Under the 1984 liberalization program the latter will decline to 20 percent, but not until 1988.

The argument has been made that these tariffs are needed to protect domestic production capacity. However, the question can be raised as to whether it is sound policy in such a dynamic economy to protect or expand an industry which has only a small domestic resource base.

Certain wood tariffs affecting the construction industry could be eliminated with little or even a positive impact on domestic manufacturers. Veneer used to make plywood, which is discussed later, is a good example.

Even plywood itself is a product which can be further liberalized with minimal impact on domestic producers For example, the Korean industry now produces plywood almost entirely of hardwood from Southeast Asia. The United States is interested in exporting plywood to Korea made from softwood. Softwood plywood is a higher strength and more durable material for many construction applications, such as concrete forming, wall sheathing, floors, etc. U.S. plywood manufacturers have for years concentrated on developing markets for such structural uses.

Only a small amount of Korean plywood now is used for structural applications. If the present tariff barrier on plywood were eliminated or sharply reduced, the American plywood industry could be expected to try to expand this structural market. U.S. plywood producers would also need to aggressively promote the acceptance of softwood as a panel product. This combined additional promotion could be expected to expand the total market for plywood. Such action would not only help U.S. producers, but could benefit Korean hardwood plywood producers as well.

In summary, if softwood lumber duties were eliminated, it could be of enormous benefit to both the construction and housing industries. The same is true for plywood; moreover were tariff levels reduced only on *softwood* [10] plywood competition from U.S. imports would come slowly and would not directly impact Korean plywood producers.

Furniture Manufacturing: Furniture industry growth, like construction activity, has fueled the boom of the Korean economy. Geared to mainly satisfy burgeoning domestic needs, Korean furniture producers are now beginning to focus on the world market, producing a growing number of items for export, such as parts, components, knocked-down units, furniture and cabinetry.

Korean furniture producers that export need American hardwoods such as oak, cherry, ash and other woods which are specified by quality furniture buyers in the United States and Europe. All furniture manufacturers need low cost sources for fiberboard and particleboard. Korean production capacity for these panel products presently cannot meet demand and the questionable adequacy of the resource base does not argue for its expansion. U.S. producers of hardwood lumber and veneer as well as manufacturers of fiberboard and particleboard have the resources and capacity to meet these demands.

However, American companies must overcome major tariff hurdles, some of which tend to be discriminatory, to compete in the Korean market place. Tariffs on particleboard have recently been dropped to 20 percent (for up to 100,000m^3). But this is still a prohibitive barrier. Duties on temperate species—oak, walnut, etc.—of hardwood lumber and veneer are generally 20 percent, as much as double that which is imposed on tropical lumber and veneer, with no reductions planned for the future.

Korea does have a procedure whereby domestic manufacturers can receive a rebate for tariffs charged when imported products are used to produce a product for export. Although growing, the amount of furniture being exported to date is small; moreover the procedure is frequently not used because it is complicated and difficult to administer.

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[10] The Korean industry's concern for *hardwood* plywood import competition could be resolved by splitting the Korean tariff, 44.15, into two categories—hardwood and softwood-faced plywood—and only reducing the tariff on softwood.

Therefore, eliminating tariffs on lumber and veneer made of temperate hardwoods, as well as fiberboard and particleboard, could provide important benefits to the Korean furniture industry, being reflected in lower costs at home and increased competitiveness overseas.

Strengthen raw material supply

As indicated, the Korean lumber and plywood industry is heavily dependent on outside sources for raw material. Korea must import logs for approximately 47 percent of its softwood lumber production and 92 percent of its hardwood to produce both lumber and plywood. Most of the softwood logs come from the United States with some from Chile and New Zealand. Almost all hardwood roundwood now comes from Malaysia.

This raw material dependency argues for the immediate elimination of all tariffs on logs and other raw material as well as the eventual complete liberalization of tariffs on processed products. Such action would both help Korea ensure its long term supply and the competitive postion of its exports.

The United States is most interested in decreased barriers to processed wood products; however present discriminatory tariff levels even impede the shipment of its raw material to Korea.

Luaun logs now pay a special Korean duty of only 1.5 percent. However, U.S. softwood logs, which are now used for lumber but could also be used for plywood production, must overcome a 5 percent tariff. Temperate hardwood logs, for which the United States could become the primary source, are charged a 5–10 percent duty.

The United States is the most dependable and free major supplier of wood raw material in the world. In contrast, the countries of Southeast Asia with timber resources are gradually restricting their exports of logs as they build their own lumber and plywood processing capabilities. For example, the Philippines exports virtually no logs at present; Indonesia has gradually imposed an embargo on its log exports so that virtually none will be exported this year; and Malaysia is considering similar action. The full impact of these policies is yet to be felt by importers because of the recent worldwide recession which has lessened overall demand. However, the eventual effect on countries such as Korea will be higher raw material prices and reduced supply availability.

Softwood veneer from the United States is an important alternative to Southeast Asian hardwood logs now being explored by resource-poor Asian plywood industries. This veneer, actually a second stage raw material, would supplement the hardwood veneer now produced in Korean plywood plants from a declining supply of tropical logs. Softwood veneer, either to produce softwood or mixed hardwood/softwood plywood, is proving to be a sound option.

But softwood veneer, like temperate hardwood veneer from the United States, now faces a tariff of 20 percent versus the present 10 percent levy on tropical veneer or, for that matter, the 1.5 percent duty on lauan logs against which veneer must compete. Certainly, in the light of the presently changing raw material supply picture in Asia, all Korean tariffs on softwood veneer should be eliminated.

The practicality of softwood veneer tariff elimination is illustrated by actions of the United States government itself. In the late 1970s during the Multilateral Trade Negotiations, at the urging of its own plywood industry, America removed all tariffs from veneer. A move by the Korean government to eliminate its veneer tariffs would similarly benefit its industry.

Strengthen U.S./Korean relationship

The American/Korean friendship is strong and long-lasting. Bonded together by historic and mutual defense needs, the countries have developed into major trading partners.

However, the United States had a $4 billion trade imbalance with Korea in 1984. Certain protectionist movements in the United States will use this imbalance, as well as the total American trade deficit, as an argument for measures that could harm Korean interests. For example, the Republic of Korea is susceptible to protectionist actions which might be taken by the U.S. Congress or Administration, such as on textiles, the Generalized System of Preferences, or through other legislative action.

As a partial counter to such action, trade liberalization on wood products would also cause Korea to gain increased support in Washington from the free trade oriented forest products industry, one of the country's largest and most influential. The U.S. wood products industry has already gone on record as being in support of renewal of the Generalized System of Preferences. It has fought against trade restrictions on textiles. And it has opposed many protectionist pieces of legislation.

IN SUMMARY

U.S. exports to the Republic of Korea are growing but the bulk of that growth is in raw materials. Although Korea has taken some steps to liberalize its market, for processed wood products from the United States this action has not had a measurable impact on U.S./Korea trade to date.

Further liberalization, particularly eliminating tariffs on these products, would greatly benefit Korea's economy. It would strengthen the industry's raw material supply with minimal impact on domstic production. And it would yield important benefits to the U.S./Korean relationship as a whole.

Therefore, it can be clearly argued that the elimination of, or major reduction in, Korean wood products tariffs of interest to the United States would be of great benefit to both countries.

How Taiwan Wood Tariff Reductions Would Benefit the United States-Taiwan Economic Relationship [11]

The elimination of Taiwan's duties on processed wood products could greatly benefit the economic relationship between the United States and Taiwan. It would help Taiwan's exports and domestic economy, improve Taiwan's access to raw materials, provide better opportunities for U.S. wood exporters, and strengthen the trading relationship between the two countries.

SIGNIFICANCE OF UNITED STATES-TAIWAN WOOD TRADE

Wood trade between the two countries has been growing dramatically. Between 1980 and 1985, U.S. exports of primary wood products—logs, lumber, veneer—to Taiwan increased nine-fold, from $8 million to $73 million while U.S. imports from Taiwan nearly doubled from $255 million to $400 million (see Table 1). Of even greater importance to Taiwan is its wood furniture trade with the United States which almost quadrupled, from $109 million to about $400 million during that period.

However, this positive trade growth masks the fact that Taiwan still maintains relatively high tariffs on many processed and finished wood products which are restricting U.S. participation in its market place. In contrast, Taiwanese wood products and furniture exports face far fewer barriers in the U.S. market.

TAIWAN TARIFFS IMPEDE TRADE

Taiwan's tariff structure on wood products allows logs and unfinished lumber duty-free entry while maintaining high tariffs on products which have been further processed (see Table 2). For example on lumber, which has received secondary processing, the duty is 20 percent, for plywood it is 15 percent, and for fibreboard or particleboard, 10 percent.

In contrast, the U.S. tariff on lumber and fibreboard is zero and for hardwood plywood it is 8 percent. Although the U.S. duty on particleboard is 4.3 percent, the Taiwanese product currently enters duty-free under the Generalized System of Preferences (GSP).

Taiwan's government, recognizing the importance of maintaining a more open trading relationship with the United States, lowered its tariffs significantly a year ago on veneer, plywood and other wood panels, planed lumber, and wood mouldings. However, as indicated, the levy on many items still remains too high to have much impact on the wood products trade.

WHY TAIWAN SHOULD ELIMINATE ITS TARIFFS

Taiwan is one of the most dynamic of the newly industrialized countries. Its GNP growth has regularly been near the top of the newly industrialized countries and indeed among the highest for all countries.

Taiwan's business and government leaders believe that free enterprise and healthy competition provide the best stimulus for their country. Although this attitude alone argues for further opening of its markets, there are other reasons why Taiwan should move to sharply reduce or eliminate its remaining high tariffs on wood products. Such action would stimulate its economy and strengthen the U.S./Taiwan trade relationship.

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[11] A white paper prepared by the International Trade Division, National Forest Products Association, 1250 Connecticut Avenue, N.W., Washington, D.C. 20036, U.S.A.; tel: (202) 463-2720; telex: 140950 NFPA DC; telefax (202) 463-2785.

Benefit Taiwan's economy

The most important argument for wood tariff reduction is that it would directly benefit Taiwan's economy. Such reduction would assist its furniture industry, aid the construction industry and facilitate access to raw material supply.

Assist Furniture Manufacturing: Taiwan's growing furniture industry—one of its most dynamic industries—would greatly benefit from an elimination of duties since it is very dependent on imported products such as lumber, veneer, plywood, fibreboard, and particleboard. While tariffs on some items have been reduced, tariffs on many others are still very high. This causes problems and raises costs for users and suppliers alike. In contrast:

Elimination of the 10% medium density fibreboard (MDF) tariff would immediately decrease production costs since Taiwan no longer produces MDF.

Elimination of the 10% duty on particleboard would likewise cut costs, assist inventory control and improve quality. Taiwan produces only 75% of its particleboard consumption and frequently does not have enough supply to meet domestic demand.

Elimination of the duties on veneer and veneered panels could also reduce cost. In its last set of tariff cuts, Taiwan officially reduced tariffs for veneer under 5mm in thickness to 2.5 percent. But, U.S. exporters report that in practice, shipments of .75 mm thick veneers are routinely assessed the 5 percent customs duty which applies to thicker veneer.

Moreover, the duty on veneered panels, which many furniture manufacturers prefer, remains at 30 percent, making their cost prohibitive. Some users even complain that from time to time Taiwanese customs officials miscategorize veneer (44.14) into the higher tariff veneered panel category (4415.02).

Elimination of all duties on finished lumber could improve manufacturing efficiency. Lumber products which receive any further work carry a much higher duty, e.g. semi- and fully-machined dimension parts (4413.99), 20 percent and mouldings (4419), 30 percent. Many Taiwanese furniture manufacturers would prefer to buy products in this more finished form, yet, the high duties make such purchase prohibitive.

Of course, Taiwan's furniture manufacturers that use imported products for goods to be re-exported receive a duty rebate for all or almost all of the import duty paid. However, this duty rebate system is complex and only the largest manufacturers can fully benefit from this indirect tariff reduction. This system, therefore, helps neither the small companies—which are in total the major exporters—nor the manufacturers who produce primarily for the domestic market.

Aid Construction: Construction has been one of the driving forces behind Taiwan's economic growth. Certain U.S. wood building products, given an open market, could lower overall construction costs and thus help maintain that growth.

Most lumber used for construction is minimally affected by tariffs. However, structural wood panels from the United States—softwood plywood (44.15) and waferboard or oriented strand board (OSB), categorized as particleboard (4418)—face high tariffs of 15 percent and 10 percent respectively.

U.S. softwood plywood could have many near-term uses in Taiwan for construction, particularly as panels for concrete forming and utility construction use. Waferboard-type products are similarly being used increasingly in other parts of the world as lower cost alternatives. Although at present Taiwan builds few wood frame houses which use significant quantities of panel products for sheathing, roofing and flooring, that efficient low-cost method of building may well become an option for Taiwan's housing needs in the future. Thus, these products should be considered now for cost reduction.

Arguments in Taiwan have been raised against further lowering of the duties on plywood. Producers fear that imports of Indonesian plywood—which is made of tropical *hardwoods* and similar to that produced in Taiwan—might completely destroy the domestic plywood industry.

The United States, on the other hand, would like to export *softwood* plywood to Taiwan, a product used mainly in construction and minimally competitive with the Indonesian or Taiwanese product. This difference, therefore, could be reflected in Taiwan's tariff schedule. Taiwan could split its plywood tariff category (4415.01) into a hardwood and softwood plywood category. A reduction in one tariff would not necessarily require a similar reduction in the other.

Facilitate Access to Raw Material: Eliminating tariffs on processed wood products could also help guarantee Taiwan access to raw material supply. Although approximately 52 percent of Taiwan's total land area is covered by forest, Taiwan imports about 90 percent of its timber needs, a large percentage being raw material in the form of logs and unfinished lumber. As mentioned, Taiwan, for no good reason, maintains high tariffs on products for which it has either inadequate or no domestic production capacity.

Until recently Taiwan's wood products and furniture industries have been heavily dependent on tropical hardwood logs. However, Indonesia's ban on log shipments, and similar restrictions increasingly being imposed by other South East Asian nations, have badly hurt Taiwan's plywood industry.

Softwood veneer from the United States could be an important alternative to South East Asian tropical hardwood logs for Taiwan's plywood manufacturers. This veneer, actually a second stage raw material, could supplement the hardwood veneer now produced in Taiwan's plywood plants from a declining supply of tropical logs. Softwood veneer, either to produce softwood or mixed hardwood/softwood plywood, is proving to be a sound option by producers in other countries. Therefore, an immediate elimination of the duty on thick veneer—5 percent—would be directly in Taiwan's interest.

Taiwan's elimination of wood tariffs generally would also help guarantee its log supply. There are political forces in the United States which intermittently try to restrict American exports of raw material, specifically logs, as has been done in South East Asia. The elimination of Taiwanese duties would remove the most important argument of such proponents, namely that certain overseas markets maintain barriers to processed wood products while importing raw materials at zero duty.

Strengthen U.S./Taiwan trade relationship

Eliminating wood tariffs could strengthen the U.S./Taiwan trade relationship. Overall trade is strong and growing with a $23 billion in all goods exchanged in 1985. However that trade is endangered by strong protectionist forces in the United States stimulated by a negative trade balance of $13 billion for the United States, the GSP (Generalized System of Preferences—a procedure whereby a developing country may be excused from paying U.S. duty on certain imported products) issue, and the growth in U.S. furniture imports from Taiwan. Favorable action on market access for wood products would build allies for the Taiwanese position on these issues in the United States. Many in Congress and representatives of certain industry sectors have argued for measures that would reduce Taiwan's exports to the United States. Taiwan is susceptible to such U.S. protectionist actions as limiting textile imports, reducing Taiwan's GSP privileges, or even imposing an import surcharge on its products.

For example only recently the U.S. Trade Representative, under heavy pressure from Congress, ruled Taiwan will lose its GSP (duty free) privileges on several items. Nonetheless, Taiwan still has duty-free or low duty entry to the United States for many of its wood products (see Table 2).

The issue of furniture may be even more critical. U.S. tariffs are very low on most wood furniture (e.g. 2.8 percent to 5.8 percent and Taiwan still receives GSP treatment on several items. But Taiwan—as with processed wood products—maintains high tariffs (40 to 45 percent) on wood furniture and furniture parts crossing its borders. As a result there is a growing force within the U.S. furniture industry which would like to further restrict Taiwan's increasing penetration into the U.S. furniture market.

To date, the U.S. wood products industry, which supplies furniture manufacturers in both markets with raw materials and parts has remained neutral on this issue. Certainly that neutrality would be more assured if the Taiwanese market were opened more fully to manufacturers of U.S. wood products.

CONCLUSION

Summing up, the U.S. wood products industry would like to see Taiwan eliminate its tariffs over the next five years, particularly on:

Present tariff rates

	Percent
Lumber (which has received surface treatment in addition to planing) (4413.99)	20
Mouldings (4419)	30

	Percent
Veneer (4414.01 & 4414.99)	2.5–5
Veneered panels an sheets (4415.02)	30
Softwood plywood (4415.01)	15
Fibreboard (4411)	10
Particleboard (4418)	10

Such action would strengthen the overall trade relationship between Taiwan and the United States by improving the trade imbalance, aiding both economies, lessening trade friction, and building a closer relationship between the wood products industry of the United States and the wood and furniture industry of Taiwan.

TABLE 1.—U.S. WOOD PRODUCTS TRADE WITH TAIWAN

[In millions of dollars]

Products	U.S. exports		U.S. imports	
	1980	1985	1980	1985
Softwood logs	0.5	0.4		
Hardwood logs	1.7	15.5		
Softwood lumber	1.5	.6		
Hardwood lumber	2.0	37.5	2.9	3.3
Softwood veneer	(1)	.1		.1
Hardwood veneer	.8	6.0	.4	.2
Softwood plywood	.1	(1)	[2] 1.1	[2] 2.4
Hardwood plywood	(1)	(1)	117.5	115.0
Fibreboard (MDF)	.1	2.0		.1
Particleboard	.7	5.2		(1)
Moulding	(1)	(1)	5.7	13.1
Wood frames		(1)	7.5	21.0
Wood doors		(1)	7.6	16.0
Household utensils and parts	(1)	(1)	38.0	67.0
Other wood products [3]	.6	5.3	75.2	[3] 155.2
Total	8.0	72.6	255.9	393.4

[1] Under $50,000.

[2] Believed to be an error. Taiwan is not shipping softwood plywood to the U.S.

[3] Includes such items as compressed wood blocks, wood boxes, wood shutters and other non-specified wood articles.

TABLE 2.—UNITED STATES/TAIWAN TARIFFS ON SELECTED WOOD PRODUCTS

Product	U.S. tariff number	U.S. tariff percent	Taiwan tariff number	Taiwan tariff percent
Logs	200.30-.35	0	4403.20	0
Lumber	202.03-.46	0	4404.01 (roughly squared)	0
			4405 (over 5mm, not planed)	1.25
			4413.01 (planed lumber)	1.25
			4413.99 (lumber which has received treatment in addition to planing)	20.0
Veneer	240.00-.06	0	4414.01 (less than 5mm thick)	2.5
			4414.99 (other)	5.0
Veneered panels	240.30-.60	[1] 4.0–9.7	4415.02	30.0
Softwood plywood	240.21	[2] 20.0	4415.01	15.0
Hardwood plywood	240.17	8.0	4415.01	15.0
Particle board	245.45-.50	[1] 4.3	4418	10.0
Fibreboard (MDF)	245.90	0	4411	10.0
Mouldings	202.62-.66	[1] 1.5–5.0	4419	30.0
Wood doors	206.30	[1] 7.5	4428	[3] 50.0
Wood frames	206.60	[1] 6.0	4420	40.0

[1] Taiwanese products which receive GSP duty-free entry.

[2] The high U.S. tariff on softwood plywood (not produced in Taiwan) is due to a bilateral trade problem between the United States and Canada whereby the latter maintains artificial standards barriers to U.S. products.

[3] Listed under "Other Articles of Wood" (4428).

Senator Boschwitz. We have a statement on livestock exports, submitted by a group called Ag World Exports, and I will read that and put it into the record.[12]

Now we have the second part of our hearing, Fritz Gwin, representing the National Commission on Agricultural Trade and Export Policy, Washington, DC.

Take it from the top and read what you have to read.

STATEMENT OF FRANCIS B. GWIN, MEMBER, NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

Mr. Gwin. Thank you, Mr. Chairman.

I do want to express my appreciation for having the opportunity to speak on behalf of the National Commission on Agricultural Trade and Export Policy, which is a body established by the Congress to assist in the development of appropriate policy in matters of agricultural trade.

Senator Boschwitz. We noted that earlier. Tell us who you are, Mr. Gwin, and what is your association with agricultural exports?

Mr. Gwin. My name is Fritz Gwin. I am the chairman of the board of Farmland Industries in Kansas City, MO, one of the Nation's larger farmer cooperatives, and a member of the National Commission on Agricultural Trade and Export Policy.[13]

Senator Boschwitz. Thank you.

Mr. Gwin. The Congress' current attention to the subject of trade is both timely and important. No single factor promises to shape our Nation's agricultural future as much as does the issue of trade.

There is, and will continue to be, a direct and fundamental relationship between the viability of our Nation's agricultural industry and our ability to effectively compete in world markets.

The absence of more substantial progress toward the goal of expanding U.S. agricultural export yields us a choice between two equally fearful outcomes: continued, massive budgetary outlays to support agriculture, or a scaled-down U.S. agricultural industry, by process of attrition or by mandatory or considerable reduction in agricultural production.

The consequences of failure of attention to import—damaged industries are equally serious. These are the stark and uncompromising realities we face today. Our response to these conditions will depend in no small part on the decisions the Congress may take this year.

The orientation of the Commission that I represent is both "promarket" and "protrade." This is not to say——

Senator Boschwitz. What does that mean? What is the difference?

Mr. Gwin. The Commission believes that we should do everything we can to promote our ability to sell into world markets and to expand world markets rather than to restrict production.

Senator Boschwitz. What is the difference between "promarket" and "protrade"? I did not understand your explanation.

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[12] See p. 94.

[13] See p. 331 for the prepared statement of Mr. Gwin.

Mr. GWIN. In my mind, I would differentiate between the terms in saying that promarket takes on the connotation of market development, while protrade takes on the connotation of being a viable competitor in those markets that are developed. This is not to say that there are no risks in linking agriculture's future profitability to the achievement of progress in world trade.

Other trading nations face policy choices no less onerous than our own. We live in a highly competitive world. These nations consistently pursue the high ground, placing their own interests above those of international trading systems.

By contrast, U.S. policy has been more circumspect. Our reluctance to wage an aggressive campaign to reassert our world agricultural leadership has given significant advantage to our major competitors. It is time to redress this balance, we believe.

The United States must reassert and manifest its commitment to leadership in world agricultural affairs. Only in this way will it be possible to achieve the benefits that may accrue from expanded trade and avoid the crises that will necessarily ensue in the absence of strong U.S. performance in world markets.

I do want to say that the Commission salutes the Congress' attention to these matters in the trade provisions of the 1985 Farm Act. But we feel that there are more actions that need to be taken beyond the progress that was made in that 1985 Farm Act.

I would like, sir, to skip in this written testimony which I have given to you, over to the broad general conclusions of the Commission, knowing that there is much more detail in the report, which is available at your pleasure.

Let me say that in preparing its final recommendations, the Commission has been guided by two basic principles. Those two principles are the wariness of actions that would result in additional Federal budgetary expenditures, and second, the willingness on the part of the Commission to consider any and all policy options that hold promise of improving trade circumstances affecting agriculture.

The Commission has throughout its deliberations operated as a committee of the whole, and we have actively sought the participation of all people, organizations and companies with direct interests in matters of agricultural trade. It has met throughout the country and in all regions of the country to assure a balance of regional interests in matters of trade. It has consistantly honored its original commitment to bipartisanship in matters of a political nature.

Consequently, the recommendations which follow should enjoy the overwhelming support of the entire agricultural industry of the Nation.

So let me summarize our recommendations to you. The Commission summarily recommends that in the design and conduct of agricultural trade and export policy, the U.S. Government be guided by the need to meet the following objectives, which are of equal importance and are here listed without regard to order of priority.

No. 1, aggressive action to meet and counteract the effects of unfair foreign trade practices.

No. 2, is use of all existing tools to expand markets for U.S. agricultural commodities and products.

No. 3, is improved management of U.S. international and domestic economic policies which affect agricultural trade interests.

No. 4, we recommend that additional emphasis be placed on value-added trade.

No. 5, we recommend that reorientation of food aid and economic assistance to serve long-term market development objectives, with substantial reliance on policies designed to promote private sector and free market-oriented growth in developing countries.

No. 6, we recommend the targeting of market growth potential in Third World countries.

No. 7, lessening of foreign policy constraints to economic growth through trade.

No. 8, appropriate attention to the maintenance of policies that safeguard U.S. agricultural competitiveness.

No. 9, of these recommendations is the strengthening of agricultural interests and a streamlining of decisionmaking in the agricultural trade policy process, to provide a more equitable and expeditious response to agricultural trade needs.

As you recognized, the written report that I have given to you contains a lot more detail than that, but I thought that I would summarize that for you, and if I can I would be most happy to try to answer any questions for you, sir.

Senator **Boschwitz**. Perhaps you can talk about the various elements of aggressive action to meet and counteract the effects of unfair foreign trade practices. What did you recommend in that area, and where do you find most of those unfair trade practices? It is a very good summary. The summary recommendations really touch all the problems.

Perhaps you can touch briefly on the solutions that you find with respect to four or five of the major items.

Mr. **Gwin**. All right, sir. Let me read from the report, as far as Recommendation No. 1.

> American agriculture is currently under unprecedented assault by foreign governments employing aggressive and unfair trade practices. The U.S. Government must take a far stronger position on matters of trade.
>
> Retaliatory capabilities of the U.S. Government should be enhanced, and all effective means employed to counter the disruptive effect of foreign export subsidies, nontariff and tariff trade barriers, and unfair import competition.
>
> Management of currently authorized export enhancement and import protection programs should be improved to safeguard U.S. jobs and enhance long-term U.S. opportunities in world markets.

Senator **Boschwitz**. What is an "import protection program"?

Mr. **Gwin**. If we in our country, if U.S. agriculture is given the opportunity to produce on a level playing field, there is no question in the Commission's mind, Senator, that we will be competitive in the world markets. And if we are competitive in the world markets, we will also be cost-competitive in producing for our own domestic markets. That in itself, as I see it, would certainly be of help in that area.

Senator **Boschwitz**. An import protection program, therefore, is a program that would prevent the import into the United States of subsidized products; is that what you are driving at?

Mr. **Gwin**. I am sorry, I did not understand the question.

Senator **Boschwitz**. An import protection program—you said, "management of currently authorized export enhancement and import protection programs should be improved to safeguard U.S. jobs," et cetera.

An import protection program is a program that would prevent the import into the United States of subsidized foreign products; is that what I am to conclude?

Mr. GWIN. The Commission does not take the position that we should be protectionist. We do not believe that. We take the position that we need to be competitive in world markets and that in being competitive in world markets, that also makes it possible for us to supply our own markets without having import problems to a great extent, as I see it.

We do believe—we do believe—that we should have fair trade in the world, but we also believe that if fair trade at some point in time seems to be impossible to get, that we should fight fire with fire. I think that is one terminology that was used by a commissioner in one of our meetings.

Certainly, the position of the United States in negotiating fair trade around the world is an admirable goal and one that we support. But it seems to me that at times in the past when we have taken a position of being the "paper tiger" we have really not sustained a program to protect our own interest, which would enhance exports and alleviate the problem of import problems.

Senator BOSCHWITZ. Do you feel we are doing the right thing, then, as we hassle about with the European Community on the accession of Portugal and Spain into the European Community?

Mr. GWIN. I believe that maybe for the first time in my recollection—and of course, I am not an expert on these matters—that we have taken a different course of action and one which I believe—and I believe I can speak for the Commission—is the right course of action in saying to the rest of the world that we do want to be good negotiators, but that is a two-way street. Negotiation means that the other side sits down with us and talks, also, so that we can come to a mutually agreeable——

Senator BOSCHWITZ. Oh, I would agree with that. I must commend the present Secretary of Agriculture. Among the first things he did upon acceding to the position there was not get to the President, and I know that one week he told me he spent 3½ hours with the President, not all in one sitting, and he is, of course, a friend of the President of bygone days, and by George, he convinced the Chief to retaliate, and not only that, he got a unanimous agreement of the Cabinet Council, which I think is testimony to the fact that he is a shrewd old dog and, by George, might get something done in all this.

I agree that we have to be a little bit more tough minded.

The Commission is going to report, I presume—this is not the Commission's report, but this is a summary?

Mr. GWIN. This is a summary of the report, Senator, and the full report is not yet available with all the supporting documents.

Senator BOSCHWITZ. I will read the summary. I think I agree.

Why did the Commission feel that agriculture particularly should be the subject of so many world trade barriers? It seems to me—and perhaps it is just because I am more involved in agriculture than in other things—but it seems to me that there are more trade barriers not only on the part of other nations, but on the part of ourselves, with respect to agriculture than there is with respect to other items.

Do you have any particular explanation for that, why there are so many more——

Mr. GWIN. So many more international trade barriers in agriculture?

Senator BOSCHWITZ. Yes, on agriculture.

Mr. GWIN. Only a personal observation, that I suspect in my mind that agriculture is of vital importance of every sovereign nation—of vital importance. Most every nation would like to be agriculturally self-sufficient, at least in food production, self-sufficient, and not depend on some other nation to supply the very lifeblood.

And I suspect that that gives rise to more trade problems in agricultural production than in other production.

Senator BOSCHWITZ. Well, that could be.

Mr. GWIN. It might also be that with modern technology being spread around the world more than it certainly has been in the past, that there is more capability to commence and sustain a viable agricultural industry in some of the developing countries than in some other production.

Senator BOSCHWITZ. I know, Mr. Gwin, that in your deliberations, you felt that there should be a different relationship between the FAS—that in your report, you are going to say that the relationship between the FAS and its cooperators should be on a somewhat different scale or of a somewhat different nature than it presently is.

I wonder if you would elaborate on that, as a final note?

Mr. GWIN. Well, first, of course, we all understand that we who are involved in the Commission have a primary interest in agriculture. We are proagriculture. We believe that the Nation's biggest industry is of vital importance to the well-being of the total economy, and that to do that in market development, we should give greater emphasis—greater emphasis—to market development than we have in the past. And we believe also that there is something to be gained if we could give the Department of Agriculture a greater leadership role in centralizing policy decisions in market development and trade policy, feeling that in all of that we would have more success in market development, that we would have more success in managing trade.

I suppose it is very difficult for anyone to know exactly how to structure these things best. Our overall basis and theme is let us have more coordination in developing agricultural trade, more centralized authority, more commonality before we move, so that we do not find ourselves moving in two different directions at the same time.

So our purpose is to move in that direction; whether or not this is the exact structure—which is best, I suppose, is a matter of debate.

Senator BOSCHWITZ. Well, we will debate that issue, and we will debate the issue of the relationship between USDA and other agencies of Government, the Department of Commerce, the Department of State. It is not clear to me that we are going to be able to detach all those guys; they all like to have a hand in making these decisions, and perhaps correctly so. It is not clear to me what the right answer is in that regard, but I will spend some time looking at that, and also the relationship between the Foreign Agricultural Service and its cooperators, and who should take the lead role there.

There has been a less-defined—the cooperators have submitted their plan on a once-annual basis, and then gone forward without as many checks and balances as some people would like. Personally, my approach is that that is just fine, but we will see. As one of the witnesses earlier pointed out, 30 years have gone by, and there has been no evidence that there has been abuse in these programs.

So we thank you, Mr. Gwin.

I have now read this letter from the Ag-World Exports.

Is Mr. Embree in the room?

Mr. **Embree**. Yes, Senator.

Senator **Boschwitz**. You have 5 minutes. Come on up.

Mr. Embree has written me a letter saying:

> Many livestock exporters across the country are opposed to what they consider unfair competition from USDA/FAS cooperators.
>
> Certain cooperators in the livestock area including Brown Swiss Cattle Breeders Association, Holstein Friesian Association of America, the Jersey Cattle Club and the National Association of Swine Records, conduct commercial activities in the form of sales of livestock and services in direct competition with those persons in the private sector whom their cooperator program was designed to benefit.
>
> We believe that this is unfair competition. The USDA by endorsing this type of activity is in effect promoting an unfair trade practice.
>
> We think that the USDA should prohibit a cooperator from accepting Federal funds for the purpose of promoting a commodity if that cooperator is engaged in the sale of the same commodity or services to that commodity in competition with the private sector.

I am not sure I quite understand. Would you be kind enough to explain this letter, Mr. Embree?

STATEMENT OF EFFINGHAM EMBREE, JR., MANAGING DIRECTOR, AG-WORLD EXPORTS, BLOOMINGTON, IL

Mr. **Embree**. Yes, Senator.

Senator **Boschwitz**. This is Mr. Effingham Embree, managing director, Ag-World Exports, Rural Route 1, Bloomington, IL.

Mr. **Embree**. Thank you, Senator. Yes, I would be glad to explain this.

I want to first say that our complaint here is particular to one particular aspect of the cooperator program. We are in no way opposed to the cooperator program; in fact, as exporters of agricultural commodities, we are 100 percent in favor of spending more money, not less money, on the promotion of agricultural commodities overseas. That is probably the best use of these promotional dollars that we can possibly do.

But what we are opposed to is that there are certain agricultural cooperators under the FAS cooperator program, that have been named in my letter, who are using their cooperator funds to travel overseas and to promote that particular commodity, but they are also collecting marketing information, and at the same time they are conducting these activities under the normal procedures of a cooperator, they are also in the business of exporting or selling those same commodities and/or services to those commodities in direct competition with others like myself in that same business.

Senator **Boschwitz**. It would seem to me that is what they are supposed to be doing. They are supposed to be selling the stuff. Is that what you are complaining about?

Mr. **Embree**. No, sir—well, yes, sir. We are opposed to——

Senator **Boschwitz**. Why don't you become a cooperator? What does Ag-World Exports do?

Mr. **Embree**. We are an exporter of live animals, food products, and some electronic products that are used in conjunction with animals.

Senator **Boschwitz**. Is this a private company, Mr. Embree?

Mr. **Embree**. Yes, sir. Our company is one of many private livestock export companies across the country.

Senator **Boschwitz**. I see. And you feel that some of these associations—the Brown Swiss Cattle Breeders Association, the Holstein Friesian Association of America, and so forth—that they themselves export, and they use FAS funds in seeking out customers; is that the idea?

Mr. **Embree**. Exactly. It is my understanding, and I have always been led to believe, that the cooperator program was intended to benefit those particular industries that they supposedly represented—the Holstein Friesian Association, the Brown Swiss Cattle Association, the Jersey Cattle Club, and those that have been named, all represent a particular area in that commodity of livestock. We expect them to promote that particular commodity for the supposed good of all people who produce those particular breeds and also the sales industry, which is quite great.

But at the same time that they are in the businesss of promoting, they are also in the business of selling. Market information is of a timely nature, and if you have it first, then you have quite an advantage over someone who might receive it indirectly or later through other channels.

These particular cooperators, through their advantage as a representative of the U.S. Government as a cooperator, are presented overseas as if they are almost a part of the Government. And we feel, if we are competing with them for those same sales, that they have an unfair advantage.

Senator **Boschwitz**. Well, I understand that the FAS is looking into this matter. Is that correct?

Mr. **Embree**. I hope so.

Senator **Boschwitz**. I understand that it is; at least, I have been given a note to that effect. Certainly, there are the tools available in the Department of Agriculture that will allow the investigation of these kinds of matters.

I now have a better understanding of what the nature of your complaint is, and I can understand the complaint. We will look into it, and if we can be of some help, we would be happy to do so.

But I understand that the FAS does not want to operate in opposition or to the detriment or derogation of other exporters and does not want to promote the exporters themselves, and that is what you are saying is happening, and I trust that it is inadvertent, and we will look into it a little bit.

But I appreciate your letter, and I will make it part of the record.

Mr. **Embree**. Thank you very much.

Senator **Boschwitz**. This hearing is adjourned.

[Whereupon, at 11:43 a.m., the subcommittee adjourned, to reconvene Tuesday, July 22, 1986, at 9:30 a.m., in room SR-332, Russell Senate Office Building.]

PREPARING FOR THE GATT: A REVIEW OF AGRICULTURAL TRADE ISSUES

Market Access and Export Subsidies Around the World—Barriers to Agricultural Trade

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TUESDAY, JULY 22, 1986

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:39 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Wilson, McConnell, Hawkins, Heflin, Zorinsky, and Melcher.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. The subcommittee will come to order.

This hearing is studying barriers to agricultural trade, market access, and export subsidies around the world. We have a number of witnesses and I will now ask the first witnesses, Suzanne Early, Leo Mayer, and Joe O'Mara if they would come up and just sit and make a short opening statement or two.

The business of exports, imports, and agricultural trade is becoming more and more highlighted. There is no question about the fact that our exports have fallen off and that imports seem to continue to rise and so for the first time in a number of years we have the situation where exports actually are less than imports into this country. Some people express extreme surprise by that. I must say I do not join in that group.

Quite clearly, when you lower the price you are going to make the buyers wait for a while, particularly when lowering the price is going to occur at a later date. Furthermore, you are going to make every other seller in the world empty their shelves prior to the price being lowered, so there is no question that as we approach the fall we are probably going to experience some continued lower numbers in export sales.

On the other hand, where the lower prices have already taken effect in wheat, cotton, and rice, we see considerable evidence that, particularly in futures, that exports are going to pick up and that is the intent of the farm bill and that is very heartening to see that take place. It is going to be slow. It is not going to be something that occurs with great rapidity, and I think that we simply have to have sense enough to stay the course.

We have passed a farm bill which I think will have a favorable impact on exports, but as in prior years these things are not turned on and off like a faucet. They simply have to wait for a while and you have to let the impact of your policies take effect.

We are also going to discuss, this morning, market access and export subsidies around the world—barriers to agricultural trade. They are very numerous. They are, as a matter of fact, almost mind-boggling. Some exist that are not spoken about, and many that are alleged in fact do not exist. I have heard time and again that the Argentines are very large subsidizers of their exports. I do not think that is the case. As a matter of fact, they used to tax their exports. On the other hand, they erect substantial barriers against imports into their country, very substantial barriers.

The Canadians subsidize their freight in a very meaningful way and therefore they do subsidize their exports. On the other hand, they make it very difficult for this country to export to them.

The Brazilians have the interesting approach of penalizing their growers by taxing their beans and thereby giving advantage to their crushing and other type of soybean processing facility. The Japanese have a vast array of import controls and import obstacles that almost defy the imagination.

The Australians probably do less than most, other than average out the price for their farmers over a period of years. The Europeans are talked about at great length. Clearly, they are the granddaddies of export subsidies and they also make it very difficult to import into the European Community.

Some of that is the result of GATT negotiations and some of those provisions that we now find difficult to cope with are provisions that we insisted upon when the negotiations took place 25 years ago.

On the other hand, we cannot claim that we have opened shores either. Clearly, we subsidize our producers in a way with a loan rate and target price differential. The case can indeed be made that we subsidize exports, but we certainly do not have open markets in sugar and dairy and a number of other items in which there are marketing orders. So the whole world seems to be full of various impediments to trade, and yet some would expect that trade would suddenly recover because of the new farm bill.

Many say that we are not utilizing all the programs, I suppose, that we have put into that farm bill. I suppose that case can be made. I believe not quite to the extent that it is sometimes made. We have to stay the course of the 1985 farm bill. I believe it has the right policies to begin the business of restoring our exports.

So we look forward today to hearing from our witnesses with respect to market access and export subsidies, barriers to agricultural trade, and it will be an interesting hearing.

Senator Zorinsky.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. Thank you, Mr. Chairman. I am pleased that the subcommittee is addressing the issue of foreign subsidies for agricultural exports. Nebraska farmers remain concerned that the administration is not making an adequate effort to counter the unfair trade practices of other nations, and thereby increase export sales of our farm products.

The 1985 farm bill adopted a course of reducing domestic commodity prices in an attempt to make U.S. farm products more competitive in the world market but, recognizing that our competitors use many inducements in addition to price competition, Congress also provided authority to meet that competition—such as the Blended Credit Program and the Export Enhancement Program.

While the administration continues to argue that these programs will be enough to return prosperity to rural America, farmers are increasingly aware that the administration has failed to fully use its existing authorities to expand export markets.

Many farmers would not mind "staying the course," but they hate to do it in a leaky boat. In the 1985 farm bill, Congress established authorities that, if fully implemented, will resolve many difficulties in the implementation of export expansion activities.

For example, Congress mandated an Export Enhancement Program to be carried out using surplus commodities. In the farm bill, Congress established a $2 billion program to be carried out for the next 3 years. Earlier this year, under pressure from the administration, the program authority was reduced to provide between $1 billion and $1.5 billion of assistance.

To date, the administration has used only about $280 million of that authority. Nebraska farmers do not consider the administration's actions much to brag about.

As a result of the failure to boost agricultural export sales, current trade statistics reflect a grim trend.

Agricultural export sales from the United States during this fiscal year are now projected to be less than $28 billion, more than 10 percent below last year. The agricultural trade balance this year will be less than $8 billion, the smallest trade balance since 1973. In May, for the first time in decades, the United States imported about $350 million more in agricultural products than were exported.

If the United States intends to export agricultural products, we must become an aggressive seller. Beyond that, we must divorce foreign policy from sound agricultural economics.

We must work to reduce the current surplus and increase the price of farm commodities. If the farmer is to make a profit, export sales must increase. Only in that way will farmers be able to pay the banks so that the FDIC will not have to pay claims to all these bankrupt banks.

If the administration does not make a serious effort to restore the United States to the position of being a competitive seller, few farmers will survive and family farm foreclosures will continue. The Nation's farmers cannot continue to be caught in a tightening vise of less price support from domestic programs and less return from export sales.

Mr. Chairman, I compliment you for calling these hearings. I think we have to take a businesslike approach, not a foreign policy approach, to export programs for agriculture. Unless you have a corner on the market of the commodity that you are selling you do not tell your customers to buy from your competitors, but that is exactly what this country has done. We are already in a trade war, I think that we ought to get out of bed and shake our head and realize that the dream is over.

We are wishing to return as a dominant factor in the export market but that is just not going to happen. The United States must go out and effectively compete with the rest of the world.

I look forward to reviewing today's testimony.

Senator BOSCHWITZ. I agree with the Senator that a broader application of the Export Enhancement Program should be utilized.

We will put in the record the statement of Senator Dixon, who cannot be with us today because he is attending Congressman O'Brien's funeral, and also Senator Abdnor.[1]

Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Thank you, Mr. Chairman.

Last year, this committee attempted to put a title in the farm bill that was very progressive and yet prudent on exports. We were advised by the administration that there were two reasons why trade opportunities had narrowed. First was the strong dollar. Second, budgetary restraints would limit Public Law 480, Food-for-Peace, opportunities.

It is time to evaluate this and I have to say that there is a very damaging case against the administration over agricultural trade.

First of all, the dollar has gone down. It has gone down rather drastically to a point where people are wondering how much lower will it go. Second, what was obvious a year ago and what is certainly true today, the majority of the countries with whom we trade in agricultural products, in fact the overwhelming majority of those countries, have poor economies.

Nevertheless, Food-for-Peace has been cut back and held down. What is most damaging to the administration in this whole scenario is this: Section 416 is off budget, it is not counted. We already own the grain or milk. That is the way section 416 views it. It is in surplus. We have paid for it once, and so it is off budget if we dispose of it to a friendly country. Section 416 will do everything that Public Law 480 can do and do a lot more with less redtape.

But section 416 has been used very, very sparingly by the administration. There are two broad ways that section 416 can be used. One is government to government. That involves food assistance and a formal grant. But section 416 can also be used in conjunction with section 108 of the recently passed farm bill. That would involve a partnership with the private sector in the recepient country. This has yet to be used 9 months after the farm bill was passed and 10 or 12 months since the administration knew that it would be part of the farm bill. It just has not been used even though it is directed to the private sector in any friendly country that we choose.

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[1] See p. 356 for the prepared statement of Senator Dixon and p. 359 for the prepared statement of Senator Abdnor.

This program would allow a private group or a private voluntary working organization working in the recipient country to receive a gift of surplus commodities. Once this commodity is in that country it can be sold on the local market and the capital generated in the local currency can then be used by the local people there for agricultural development, rural development, or related purposes.

This is the very essence of development aid, and yet it is off budget, absolutely off budget. With the surpluses that we have, it is absolutely amazing, in fact, it is really beyond belief that the administration would not aggressively pursue the use of these programs.

Yesterday, we took the time in my office to collect the information regarding food needs in Africa from the Food and Agriculture Organization. Even after adding up all of the help from all of the countries that provide aid to Africa, the food needs in sub-Saharan Africa are short by 1.5 million metric tons in wheat and other grains and rice. That is just Africa.

In checking with the Philippines, we find that a million tons of wheat and at least 45 million pounds of dairy products could be absorbed wisely and prudently.

In India we find that CARE India will have to cease the school lunch program that they have in nine states in India. This will mean a cut back from 10.4 million children to 5.2 million children being fed. Further, they will have to phase it out over the next 2 or 3 years to nothing.

I mention only these few sub-Saharan African countries and the Philippines and India, but there are more. Why not use 10 million metric tons of wheat through these programs to turn this situation around and be of assistance to friendly countries? Why not use several hundred million pounds of the 2 billion pounds of surplus dairy products that we now have under Federal ownership, and on which we are paying Federal storage costs?

To give you some perspective, it is no longer costing $150 to $200 million just to pay the storage costs on the surplus commodities. We are looking next year at paying well over $1 billion and some fear that it might go close to $2 billion for storage costs.

If you want a recipe of how to turn abundance into chaos and failure, we have had the perfect example in this administration.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you, Senator. I think that the record of the United States last year with respect to Public Law 480 would show that your recipe for failure is a little strong. While I am a great fan of Public Law 480, and I indeed hope that we continue to expand that program, we certainly did do that last year and the strong dollar is a problem, was a problem, and yet most of the consuming nations, the relationship of the dollar to their currency has not changed too much.

The problems do continue and perhaps some of our witnesses will be able to testify on some of this and perhaps give us some solutions, so we turn first to Suzanne Early, who is the Assistant U.S. Trade Representative for Agricultural Policy, and we welcome you here to the committee.

STATEMENT OF SUZANNE EARLY, ASSISTANT U.S. TRADE REPRESENTATIVE FOR AGRICULTURAL POLICY

Ms. EARLY. Thank you very much, Mr. Chairman. I am pleased to participate in your hearing on barriers to U.S. agricultural exports. Your topic is a timely one, in light of the rather astonishing report from the Commerce Department that the value of our imports of agricultural products in the month of May exceeded our exports for the first time since 1960 or 1970 depending upon how you read the figures.

Frankly, I do not think that anyone who knows agricultural trade places any particular significance on a single month's calculation. We are certainly not becoming a net importer of agricultural products. Nevertheless, we are concerned about the direction our agricultural exports has taken since 1981, and our actions on loan rates in the 1985 farm legislation and initiation of the Export Enhancement Program indicate this is the case.

If nothing else, reports on monthly trade remind us that we need to keep a constant vigil on our competitive position vis-a-vis other suppliers and work to remove foreign barriers that limit our trade opportunities.

Our mission at USTR is to protect U.S. trade rights under bilateral/multilateral agreements and to negotiate trade facilitating agreements with foreign countries. As such, a lot of our work involves the General Agreement on Tariffs and Trade [GATT] and the restraints that agreement puts on its members who wish to limit imports or subsidize exports.

Unfortunately, the GATT rules give the member countries greater freedom to restrict imports and subsidize exports of agricultural products than industrial products. In fact, a recent GATT compilation of import restrictions confirms that agricultural products are clearly more affected by restrictions than are others.

On the access side, both tariff and nontariff barriers limit our exports to foreign markets. I am going to spend a little bit of time talking to you about what the GATT allows, because my office gets a lot of complaints and many times I think that our public does not understand what the trade rules permit, and what they do not permit, so I would like to go into just a little discussion of that.

By far, the greatest number of complaints that my office receives are about high tariff levels in foreign countries, particularly in Latin America and the Far East. However, because the GATT recognizes tariffs as legitimate and preferable to quotas as a means of protecting domestic industries from import competition, the only way to reduce these barriers is through bilateral or multilateral trade negotiations. We are rarely very successful in getting countries to unilaterally reduce their tariffs.

There have been seven rounds of multilateral trade negotiations sponsored by the GATT since 1949, and tariff reduction exercises have figured prominently in each round. Yet, agricultural tariffs are still high in many countries, and part of the reason for this is that agricultural tariffs in these various rounds have always been negotiated on the basis of request and offer, rather than on the basis of across the board cuts.

In these request and offer negotiations, countries can easily protect certain sectors by simply not offering their tariffs as candidates for reduction. They sit on the sidelines, yet they can get the benefits of other bilateral negotiations by virtue of the "most favored nation principle." It is really the best of both worlds. You do not have to give up anything and you get whatever anybody else trades, whatever anybody else has paid for. The inequity of this type of negotiation is the reason that it was abandoned a long time ago on industrial products.

The European Community's variable levy is probably the single most important barrier to U.S. agricultural exports.

The EC claims that the levy is simply an unbound tariff or sometimes they call it "other charge." In practice, the levy behaves more like a price quota. The levy is applied to all grain-based products entering the European Community, with the exception of corn gluten feed. High domestic price supports along with the protection afforded by the system of variable levies have enabled the European Community to go from a major net importer to self-sufficiency in wheat, coarse grains, poultry, and beef, and as a consequence our exports of these products to the Community have fallen sharply.

As you know, on March 1, the EC variable levy began to be applied on grain imports into Spain. This is a market for about 2 to 3 million tons of United States corn annually, and in the first 4 months of the new regime, Spain's variable levy averaged 137 percent of the price of corn at the border—quite an increase from the 20 percent bound rate that we enjoyed on our exports to Spain prior to March 1 and, of course, the result was that United States exporters did not sell any corn to Spain after March 1.

Because the original Spanish tariff of 20 percent was bound, we requested compensation in the GATT, but the EC could not agree. In order to delay United States retaliation, the EC found a temporary solution wherein the import of United States origin feeds into Spain will be measured against a standard of 234,000 tons per month for the next 6 months. Now, if imports fall below this quantity in any month, the EC has said they will make up the difference vis-a-vis a reduced levy into the other Community member countries on grain.

We realize that some in the industry were disappointed that we decided to accept the temporary solution while continuing to work on a permanent agreement. This does not signal a lack of interest on the part of the administration in pursuing this problem to a satisfactory conclusion.

Last week, we again sent people to Geneva to negotiate with the Community about compensation, and while we agreed not to raise tariffs on the products on the retaliation list on July 1, we have reserved the right to do so at any time.

We are confident that we will get a settlement that will insure that we are adequately compensated for the trade damage that we will suffer.

Quotas are also prevalent in agricultural trade. The GATT allows quotas on agricultural products if the country applying the quota controls domestic production and provides for some minimum access quantity, and that quantity is spelled out in the GATT. It is to be a certain percentage of domestic production, depending upon what that import percentage represented before the quota was applied. Canada's quotas on chicken, eggs, and turkeys meet this requirement, so Canada's quotas on those products are consistent with their GATT obligation.

Quotas are also permitted for countries who are in balance-of-payment difficulties, but the quotas are supposed to be removed when the balance-of-payment difficulties are resolved. This has not been the case with many of Japan's quotas and we have asked for a GATT panel on Japan's quotas on 12 categories of processed foods because Japan is not able to agree to a schedule for eliminating those quotas, even though Japan's balance-of-payments justification for them expired more than 25 years ago.

Lastly, there are quota programs which meet neither of the two above requirements but they are permitted in the GATT nonetheless because they were grandfathered in when that country joined GATT. Many of the quotas that the Nordic countries and Switzerland maintain on agricultural products fall in that category, as does Canada's control over the marketing of wheat and barley imports.

Animal health and sanitary restrictions also act as barriers to U.S. exports, and a major concern in this area at the moment is the European Community's third country meat directive, which requires that U.S. meat processing plants that wish to continue supplying the European market, meet rigid inspection standards established by the European Community. The regulations are scheduled to become effective on January 1, 1987. Our trade in these meat products is about $80 million.

A preliminary review by the European Community of U.S. plants suggests that only a few could meet the new EC standards. A second review of U.S. plants is now underway. We believe that some of the EC requirements have absolutely no scientific basis. At the direction of the President, we have instigated a factfinding investigation into potential trade effects and also the scientific rationale for the EC's third country meat directive.

Clearly, next to a slowdown in economic growth in third country markets, the major problem currently facing U.S. agricultural exports is the indiscriminate use of export subsidies by competing suppliers. The principal, but not the sole offender, is the European Community.

Export subsidies have enabled the EC to become one of the world's largest grain exporters and the largest exporter of dairy products, broilers, pork, eggs, wheat flour, and beef. The EC export subsidies have had a major impact on the volume and pattern of world agricultural trade and have significantly reduced marketing opportunities for other, more efficient agricultural exporting countries, including the United States.

We have challenged EC export subsidies on wheat flour and pasta in the GATT. More recently, at the President's direction, we have held consultations with the European Community on wheat, and this is a complaint we are prepared to pursue further in the GATT, if necessary.

The wheat flour and pasta subsidy disputes are still not resolved. Part of the problem lies in weak GATT rules on export subsidies for agricultural products that permit such subsidies as long as the subsidizer does not take an inequitable share of world trade. The GATT, however, does not adequately define an inequitable share and, in addition, the GATT dispute settlement process is not effective because of the ability of a disputant to block adoption of panel reports and thus put the proceedings in total limbo. This is what happened in our pasta complaint.

It is because of these weaknesses in the international rules that we have had to resort to export subsidies ourselves. Our preference, though, would be to negotiate stronger, more effective rules within the GATT, both on export subsidies and import access.

For our part, we would like to see an absolute prohibition of export subsidies, with only very limited exceptions, such as for food aid. We would also like to see the rules of access strengthened so that the principle of comparative advantage would have a better opportunity to work in agricultural markets.

As you know, we have a new round of multilateral trade negotiations that will be kicked off in Punta del Este, Uruguay, in September, and reforming agricultural trade rules will be a major priority for most countries, and we would like to see that move on a fast track.

Whatever happens, these negotiations will greatly influence the future complexion of world agricultural trade, and we hope the negotiations result in liberalization of import barriers and trade flows based on comparative advantage. If we achieve this, U.S. agriculture should fare very well in the future.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Next we will hear from Leo Mayer and Joe O'Mara.

I note that you have arrived, Senator Wilson. Do you have an opening statement that you wish to make?

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you, Mr. Chairman. I once again wish to thank you for arranging this extremely timely and informative series of hearings on agricultural trade issues and for scheduling today's discussion of the barriers which are frustrating our farm exports.

This is of particular interest and concern to the farmers of my State because, as I think you know, California is our Nation's largest agricultural producing State, with an annual volume of nearly $15 billion. This year it also became the largest farm exporting State, although more by default than by growth, which is a doubtful distinction, as its own exports have plummeted, as have those of the rest of our agricultural community.

As the members of this committee are painfully aware, U.S. farm exports have now fallen from a high of $44 billion in 1981 to less than $30 billion last year. In fact, they may be as low as $27 billion in 1986, and during that same period California's agricultural exports have dropped from $4.2 billion to last year's level of $2.7 billion.

It is an indication, Mr. Chairman, of the depth of our Nation's farm export depression that California has become a leading export State by virtue of the decline of the competition, rather than by our own growth. In fact, our exports now record the lowest annual amount of California farm exports in nearly a decade.

There are a number of reasons for the very depressing trend that you have noted and others have noted as well: The high loan levels contained in the 1981 farm bill and the growing strength of the American dollar during the first half of this decade.

Fortunately, both factors are being addressed, the former through changes in last years farm bill, such as the marketing loan provisions for cotton and rice, and the latter through a more aggressive internationally coordinated monetary policy by the Treasury Department.

Another persistent and in my view increasingly pernicious cause of limited farm exports is the focus of today's hearing, tariff and nontariff barriers to trade. Incidentally, this was the focus of an excellent report recently released by the California World Trade Commission. Specifically, this 416-page report catalogs the barriers to California's farm exports throughout a dozen Pacific Rim countries. Collectively, these countries account for nearly 70 percent of my State's farm exports, and will represent a major growth market for American agriculture throughout the remainder of this century and far beyond.

The extent to which our farmers may enjoy expanded trade opportunities in that part of the world will be directly related to the success which our trade negotiations encounter in reducing and eliminating this wide array of trade barriers.

As noted in the report of the California World Trade Commission, these barriers include widely varying tariff levels and a diverse collection of nontariff barriers, aptly described as "hidden trade restrictions that are deeply rooted in each country's cultural, geographic, economic, and political traditions."

Briefly, I would like to highlight some of the information contained in this report. Tariffs or custom duties which are a GATT preferred method of regulating trade have a direct impact on the competitive prices of U.S. products abroad. Hong Kong and Singapore, which impose virtually no restrictions on trade, have low tariffs and apply them on just a few products. But unfortunately, many Pacific Rim countries impose prohibitively high tariffs.

Despite recent tariff reductions, Taiwan still assesses a 65-percent duty on apple imports and a 50-percent duty on wine imports. Thailand recently increased its 66-percent maximum duty by an additional 25-percent.

Surcharges, which are applied on top of tariffs, can also substantially increase the costs of U.S. farm products. For example, Japan's tax on liquor adds $4 to the price of a $6 bottle of California wine. Australia has over 70 specific customs surcharges in effect, with the maximum surcharge in Indonesia, approaching 300 percent of the basic duty.

Uncertain methods of customs valuation which are contrary to GATT dramatically increase effective duties. Countries like Indonesia, the Philippines, Taiwan, and Thailand ignore commercial invoices and assign their own inflated values to imported products. The result is artificially higher overseas prices and obviously lower demand for American agricultural products.

Another major barrier is phytosanitary restrictions which can represent a legitimate obligation of government to guard against the infestation of pests and diseases found in other countries, however, are frequently used to disguise protectionist trade practices.

Korea, which has a small domestic citrus industry, limits citrus imports because presumably it fears infestation of the Mediterranean fruit fly, a pest that was eradicated in California several years ago.

Japan limits nectarine imports because of its fear of coddling moths. This is true even though nectarine growers have never had a commercial infestation of the pest. I think that the Japanese could find coddling moths in ball bearings.

Import licensing requirements which exist throughout the Pacific Rim countries are among the most restrictive barriers to our agricultural exports. Several nations, such as New Zealand, issue automatic import licenses based upon prior sales, thereby limiting market expansion and perpetuating the import monopoly.

A Korean license usually channels imports into the limited hotel and tourist business. Even when a Korean license permits an importer to utilize general distribution outlets, the product is usually placed under surveillance, meaning the Korean Government may suddenly and unilaterally raise tariffs on imports that threaten to exceed a certain level.

Balance-of-payments restrictions have forced Indonesia and the Philippines to curtail purchases of certain luxury items such as fresh fruit and raisins. Consequently, Indonesian imports of United States fresh fruit plummeted from more than $9 million in 1982 to less than $100,000 last year.

Similarly, sales of raisins to the Philippines, which have amounted to $1 million in previous years, fell below $100,000 in 1985. State trading requirements give governments complete control over international transactions. China, for example, is an enormous market with one customer, the government. In Taiwan, the sole importer of alcoholic beverages and cigarettes is the not so subtly named Tobacco and Wine Monopoly Board, an agency of the Taiwan Government.

Preferential tariff schemes and bilateral agreements reduce American export opportunities. For example, pistachio growers who pay a 6-percent duty to sell their product in Japan compete against Iranian nuts that enter Japan duty free. Also a treaty between Australia and New Zealand gives Australian winemakers a competitive advantage over American wine exporters in the New Zealand market.

Foreign representation regulations imposed by certain governments require foreign producers to do business with a single importer. In some instances, that importer is free to represent a number of foreign companies, including competing exporters.

Mr. Chairman, as exhausting as this recitation may be to listen to, it is by no means an exhaustive list of the barriers which our farmers are encountering as they attempt to sell their products abroad. However, it is indicative of the scope of the dilemma and does provide insight into a major reason for our slipping farm exports.

Moreover, it represents a significant part of the agenda which our trade negotiators need to address and resolve during the upcoming multilateral trade negotiations scheduled to begin in Uruguay in September, and during bilateral discussions which are occurring on a continual basis.

Mr. Chairman, I would only add that in listening to Ms. Early this morning, I am sure that you and I had what Yogi Berra described as a sense of deja vu all over again. As we sat with Sir Roy Denman about 2 weeks ago, you and I brought up to him, things that she accurately and succinctly recited this morning. I was, I am afraid convinced that the conclusion, and stated to Sir Roy at the time, that I was more depressed than when we first sat down at the table. He is a gifted advocate, skilled and versed in the history of various rounds of GATT negotiations, but the conclusion that I think we both had at the end of the 2-hour period was that a very sophisticated stonewalling had simply continued, and that something other than retaliation would not suffice to make credible our insistence that Minnesota, Montana, Oregon, and California farmers, indeed, those of our entire agricultural community, receive fair treatment. We would like to do it through the easy way, through negotiations, not that that is very easy, but if we are compelled to, we are prepared to do it by retaliation. I think that it is essential that the impetus given by your hearing be given the kind of follow-through that only this committee can insist upon.

I think we need a trade bill in addition to the tools that are already available to the President, and I think we need to keep the pressure on to see to it that the victories, which I do not minimize and which Ambassador Yeutter in particular won in the recent past are only the beginning, because there is much left to be undone.

Thank you.

Senator BOSCHWITZ. Thank you, Senator, for that rather long opening statement, a very valuable one, and a recitation of the various barriers that exist around the world. I specifically ask all of our witnesses to address the Senator's comments about whether or not there is really a chance to break down those barriers or are we just whistling in the wind.

As you pointed out, Senator, we did have a long session in this room privately with Sir Roy who, as you pointed out, is a very gifted advocate and he is versed in history and, as a matter of fact, is part of the history of much of the trade negotiations in agriculture that have occurred in the last quarter century and that is, I suppose, a euphemism to say he is a gifted advocate. He indeed did stonewall, but it is a harsh thing to say, I would say to the witnesses, that perhaps we should just go to retaliation. Is that what the future holds? Are we just whistling in the wind to talk about lifting some of the trade barriers?

Yet, you know, the 1970's were dynamite, they were very bullish times. Did these trade barriers not exist in the 1970's or were economic times just such that it accommodated everybody, and those it didn't accommodate we loaned them the money to buy the goods? So, is the real solution just to wait for economic times to get better, or is there some solution to be found either in negotiation or retaliation, and is there a way to break down this very complex array of barriers that even go so far in Japan as to include lowering the real estate taxes on people who do a little farming so, as we discussed last night, some people put a little rice paddy in their front yard and lower their real estate taxes some?

Is there any way to eventually break down some of this ingenuity and creating either agricultural productions and barriers to trade? I hope that our witnesses will not only recite the problem, but address that question.

I now turn to Senator McConnell.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Senator McConnell. Thank you very much, Mr. Chairman. I too want to commend you for holding these hearings. I have an opening statement which I would like to enter into the record,[2] but also would like to make a couple of observations about a development that some of us certainly were pleased about yesterday. That is the announcement that the South Korean Government, after practicing what obviously is one of the most egregious examples of protectionism in the world by making the possession of foreign cigarettes by Koreans a crime. The Korean Government was very serious in this matter, having arrested some 4,000 to 6,000 Koreans in 1984 for possession of foreign cigarettes.

The Korean Government announced yesterday that it was going to allow the importation of foreign cigarettes beginning on September 1 by allowing in 120 million cigarettes, raising that to 800 million cigarettes beginning with January 1987, which represents about—the 800 million figure representing about 1 percent of the Korean market.

I thought I might briefly recite my own experience with the Koreans, if I could——

Senator Boschwitz. One percent?

Senator McConnell. One percent. What we anticipate in Korea is about 10 percent of the market, which in terms of my Kentucky burley tobacco growers would mean about $80 million a year. So 1 percent is only a beginning.

But I thought I might cite my own experience with the Koreans. I introduced in March a Korea specific trade bill. Most of the trade bills that are introduced around this place apply to a variety of different countries. I decided to go at it a little differently, and so I introduced a Korea specific trade bill that said in effect that unless and until the Koreans opened up their market to our tobacco, cigarettes, beef, citrus, and some other items that Senator Wilson and Senator Hawkins have an interest in and others, we should discontinue our GSP advantages for them. GSP benefits give the Korean Government relatively duty-free access to our markets for a variety of our products.

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[2] See p. 356 for the prepared statement of Senator McConnell.

That set off a steady stream of Korean visitors to my office over the next couple of months and I had a good opportunity to get to know many members of the Government and the opposition and others over a two-month period of time. I went to the Republic of Korea at the end of May and met with President Chun Du Huan in the Blue House for 45 minutes and met with other high ranking officials of the Korean Government. The President indicated that the Koreans would do two things.

No. 1, he said they would take their tobacco and ginseng monopoly and move that out of the Government into what they call a public corporation, and he said they would pass that legislation in the special session of the National Assembly which was in June.

That is a fairly big step for them. They have 30,000 employees in the tobacco and ginseng monopoly, and in context that is bigger than the Kentucky State government. As we all know or some of you may know, the monopoly controls the growing, manufacturing, and selling of Korean tobacco in that country, and the tobacco industry provides 9 percent of the total Korean budget, so it is no small item. As you can imagine, a lot of Koreans were wondering whether [illegible] were going to continue to be employed if such a step were taken.

The second step was to decriminalize the possession of foreign cigarettes. The President of Korea said that they would do that at the regular session of the National Assembly in September. Well, the special session came and it went and the first step was not taken. To say that the junior Senator from Kentucky was upset was to put it mildly. The step of moving the tobacco monopoly out of the Government and into the private sector was not taken, and I was much distressed and took to the Senate floor and decided to offer my Korean bill as an amendment to the State Department security bill.

I decided at the request of the majority leader to withdraw the amendment and not pursue it further. I had a generally depressed feeling as to the prospects of opening up the Korean cigarette market until I got a call late last week from the Korean Ambassador who confirmed that yesterday the Korean Government did in fact intend to open up the market and to in effect decriminalize the possession of foreign cigarettes. Apparently they discovered that it could be done in the absence of a statute. So the first step has been taken.

The second step, to move the tobacco and ginseng monopoly out of the Government and into the form of a public corporation, will I am told be taken in September. So I am beginning to be a little bit encouraged at least by that particular step. I am wondering, Ms. Early—and I guess we do not have time to get into questions right now—if the Korean Government's willingness to at least begin the process of cigarette market opening and settle some other 301 cases, is an indication that other countries, too, are going to begin to respond?

My own view is that unless that happens and happens pretty quickly, as Senator Wilson has said, an unacceptable trade bill is likely to go zipping through this place—maybe even by a veto-proof majority—and there are a lot of us who would rather not be a party to that. We would really rather not go down that road, but I think we are going to have to have some responses from countries like Korea

The Republic of Korea has apparently responded in the last few days and other trading partners must liberalize their markets quickly or we are going to have trade legislation on the books in this country.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Senator, are you going to be around for a while so Ms. Early can respond, or if you are going to leave I would ask her to respond now?

Senator MCCONNELL. I will stay a little longer, Mr. Chairman.

Senator BOSCHWITZ. Fine.

The Senator from Florida has also joined us. Senator Hawkins.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator HAWKINS. Thank you. Mr. Chairman, I commend you also for holding these hearings, probably the most important thing we are doing on the Hill this year. It is hard for other Senators to realize that it is super important when we look at the amount of money that we estimate that the farm bill is going to cost and we look at the unofficial estimates of what it is going to cost and look at the negative balance of trade last year, we have to do something and we have to do it quickly.

As I listened to Senator Wilson articulate each commodity and Senator McConnell talk about his commodities, of which I was associated with on the citrus portion, it is not hard to understand the desire of sovereign nations to develop policies that lead to agricultural abundance and self-reliance. That is what they are doing and we should be doing the same.

It is hard for me to accept the fact that the United States is going to continue to allow this to happen. The unfair situations that Senator Wilson has talked about remind me all over again of a situation, and I do not know why we are tolerating the one that has arisen in Brazil with regard to frozen concentrated orange juice. It appears that although there is literally no domestic market for concentrated orange juice, the Brazilian Government has developed a major new industry for the purpose of exporting orange juice.

Now, the result has wreaked havoc on our $2 billion citrus industry in Florida. We have enough havoc with the weather and canker and other things, and when we are working so hard to have the CBI and help these nations and we talk about rolling over and rescheduling, whatever the new word is for Brazilian debt, I will tell you, I am going to play hard ball with that nation just like Senator McConnell has done and each one of us around the table may have to take a nation and play hard ball individually with each nation until we get their attention.

I commend you for holding these hearings. I also want to thank the trade reps, Mr. Yeutter and also his staff. They are doing wonderful work and they just need a lot of help and we may have to all go and sit beside them at this next round of hearings. Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you, Senator.

Now we will turn to Mr. Mayer. Joe, are you also going to testify, are you going to participate with——

Mr. O'MARA. I will participate with the questions.

Senator BOSCHWITZ. That will be fine.

STATEMENT OF LEO W. MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY CHARLES JOE O'MARA, ASSISTANT ADMINISTRATOR FOR INTERNATIONAL TRADE POLICY

Mr. MAYER. Thank you, Mr. Chairman.

I am Leo Mayer, the Associate Administrator of the Foreign Agricultural Service of the U.S. Department of Agriculture, and I have with me Joseph O'Mara, our foremost trade policy expert in the Department of Agriculture.

We appreciate this opportunity this morning to discuss barriers to expanded exports. Rather than read my testimony, which is rather long, I would just like to summarize it here and then enter it into the record.[3]

First, it points out that there are two types of barriers to expanded exports. One type are those imposed by a lack of demand in foreign countries based on taste and preferences, based on lack of familiarity with our products, and things which do not cause them to buy our products.

The second set of barriers are those imposed by governments such as tariff and nontariff barriers, those with which we are more often familiar.

Our efforts in the Foreign Agricultural Service are primarily designed to remove those constraints that result from a lack of demand, a lack of familiarity with our products——

Senator BOSCHWITZ. Excuse me. I did not see Senator Heflin come in. Senator Heflin, do you have an opening statement?

Senator HEFLIN. I will submit it for the record.[4]

Senator BOSCHWITZ. Fine. I apologize, I did not see you come in. Pardon me. Go right ahead.

Mr. Mayer, the recitation of the problem is an important element of your testimony, but I hope you will address what are the chances of lowering these trade barriers around the world and whether or not we are just whistling in the wind, as I say, or if there are some opportunities to really lower them and have more of an open trading society.

I think that your testimony—I might say that I have not read it, but I will—that you go from country to country, it looks like the work of our friend, Mr. O'Mara, whom we know so well, but that will be very useful and I will read it. I will read your testimony, but also address whether or not we have really an opportunity to bring an end to some of these barriers.

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[3] See p. 361 for the prepared statement of Mr. Mayer.

[4] See p. 358 for the prepared statement of Senator Heflin.

Mr. MAYER. Well, Senator, we are very much convinced that we can remove both types of barriers. I would just say that the Korean example already cited this morning is just illustrative of the kinds of things that can happen when we stay the course in terms of trade policy. We have to be very consistent and we have to keep the pressure on these countries not for a week, not for a month, but it is going to take years to remove the kind of barriers that we have outlined in this appendix to our paper.

It is a very extensive list and I was impressed myself as I read through it with the country-by-country recitation. I would recommend to everyone that is interested in this area that they also look at it. Let me finish up here and note that in my own testimony there are a number of examples of where we have opened up markets of this first type, where there is lack of familiarity with our products. We cite in there the case of buffalo production and the use of feed grains in that particular process and how by teaching them the use of balanced rations we have greatly increased the demand for feed grains.

Senator BOSCHWITZ. Buffalo?

Mr. MAYER. In Egypt.

Senator BOSCHWITZ. Oh.

Mr. MAYER. The Feed Grain Council set up the buffalo fattening program and taught the farmers there how to fatten their buffalos, rather than simply to keep them in the traditional way.

Now, the second area, of course, where we support the work of the U.S. Trade Representative is in the barriers known as tariffs and nontariffs. There are a lot of examples also in my paper of successes we have had in the past year in the Pacific Rim countries of removing tariff and nontariff barriers or at least getting them to reduce them.

I do not want to go through the long reiteration of that, but let me close by simply spelling out what our long-term goal is in the area of trade policy. It is probably not realistic to expect all trade barriers to be eliminated, but there is a strong case that can be made for reducing the level of protection and for doing it in a responsible, well thought out manner.

Our goal is to ensure a world food system that flows uninterrupted for the benefit of farmers and consumers alike. To the extent possible, we want to create an environment for comparative advantage to work. Our tactic for achieving these goals are first to create demand for our product, giving the consumer what he wants, when he wants it, and how he wants it. These are the basic tenets of any good marketing plan.

Where this tactic needs additional support, we advocate negotiation. As long as two opposing factions are talking, there is hope. If we stop talking to each other, there is little chance that our goals will be achieved. Only as a last resort, as in the case of the European Community, do we advocate retaliatory actions. The strategy is to use this type of action only when all other efforts have failed and surely not as our first or even second course of action.

The possibilities for nations in today's trading situation to attack and counterattack goes on ad infinitim. Where does it end? In a trade war everybody loses. To achieve our goal of freer trading environment, however, does not rest with us alone. It must be done by all trading nations, not just by the United States. This is one of the topics we will be discussing in the upcoming round of the multilateral trade negotiations under the GATT.

The U.S. position for these negotiations is to seek a freezing of subsidies and access barriers and then having a scheduled rollback to zero. We also will seek agreement to encourage greater harmonization of animal and plant health related regulations that impact on international trade. We want to create a climate for global growth and opportunity for all efficient producers. This goal transcends politics both at home and abroad.

Thank you, Mr. Chairman. That concludes my testimony.

Senator BOSCHWITZ. Mr. O'Mara, do you have anything you want to add to that testimony?

Mr. O'MARA. Well, I think the optimism that Mr. Mayer expressed in terms of the opportunity that we have in the new trade rounds is a very real one. I think it is important that we take advantage of that opportunity because in fact it is the only way we have to achieve worldwide reduction in the barriers to trade. It is important that we emphasize that in every way we can.

Senator BOSCHWITZ. Let me ask two questions, if I may. Clearly, there are more barriers and subsidies in agriculture than there are in industrial products. To what do you as a panel attribute that to?

Mr. O'MARA. Well, I think the basic reason, Senator, is all countries support their agricultural economy through various means but it is basically subsidized in one form or another. The protection that comes is a result of that national policy to support farm income, to protect treasuries from having to spend more money than they would otherwise have to spend as a result of protecting farm income.

Also there are agricultural situations subject to weather conditions and other events beyond human control. The barriers spring from that effort to protect farmers from situations that are not controllable. It is a method or an attempt to maintain farm income through more protection.

Ms. EARLY. Senator Boschwitz, in my study of how we got into this mess, I think we have to look back at the United States as the primary culprit, unfortunately. When the rules in GATT were written, in the 1949, the United States insisted that exceptions be made for agriculture.

We wrote into that agreement the exception that you could put restrictions on imports of agricultural products if you controlled domestic production and allowed a minimum access level that I referred to earlier. We did that because at the time this mirrored our section 22 legislation. Then, in 1955, we changed section 22 so that production controls were no longer required. Most importantly, we passed an amendment which said no international agreement could ever interfere with section 22. Because of this amendment we were obliged to ask for a waiver of our rights in the GATT.

Because of the U.S. waiver, other countries have not felt compelled to live by the strong rules that we excepted ourselves from.

Likewise, on export subsidies the United States insisted when GATT was written that agricultural producers be allowed to directly subsidize their exports.

My understanding is that we were the only country at the time that used direct export subsidies and we felt that in order to have that GATT accepted by the Congress we would have to be allowed to continue the practice.

Unfortunately, now we have changed our policies to a great extent. We no longer use direct export subsidies, although we do have the Export Enhancement Program, and we have removed many of those section 22 quotas. However, others have picked up on our act and that is the problem that we face.

Senator BOSCHWITZ. Let me restate the question. So how we got there was the first part of the question. What do you feel is the hope of getting out of it now that we are into it then?

Ms. EARLY. Well, I think for us to really get out of this, we and the European Community are going to have to come together in some kind of an understanding, and I think there are more positive forces that are working right now to bring this about than there perhaps have ever been in the past.

Both we and the European Community are going to be spending over $25 billion on agricultural price supports this year. The European Community, in a recent article I read in AgriEurope, projects a $2 billion deficit in financing their projected expenditures this year. Their system does not allow them to deficit finance, so they are facing the prospect of not being able to provide the support they would like to toward the end of this year.

Also, each of us, the European Community and the United States, have tremendous surpluses. We have about 1 year's production of wheat in stock in the United States and half a year's production of corn. Both the European Community and the United States have enormous surpluses of dairy products. They have wine lakes and they have beef mountains. I think this is a second factor that will cause us to come together.

And last, the developing countries and other exporters are beginning to be quite concerned about the policies of the United States and the European Community and they are joining together in groups called nonsubsidizing exporters to try to bring some rationality to this whole system.

Because of these three factors, we stand a better chance of reforming the GATT rules and bringing more market orientation to agricultural trade policies.

Senator BOSCHWITZ. Senator Melcher.

Senator MELCHER. Have there been any cases brought in GATT against donations of food to needy countries to assist in development?

Ms. EARLY. None that I know of. But in our wheat flour complaint against European Community export subsidies, at issue was whether or not we should add food aid into the respective market shares in determining whether or not the country had taken more than an equitable share. My recollection is that they were included in figuring the equitable share.

Senator MELCHER. Then there have been no cases that you are aware of?

Ms. EARLY. No, absolutely none.

Senator MELCHER. No cases on donations?

Ms. EARLY. No.

Senator MELCHER. There is no barrier then. Are you aware of barriers against using donations such as section 416 or some other programs like Food for Peace?

Ms. EARLY. In fact, many of the countries that do give food aid use the donation mechanism for doing it. To my knowledge, I think we are the only one that uses what I would call partial subsidies in some of our programs.

Senator MELCHER. By that, you mean that we require some repayment?

Ms. EARLY. Yes, in some programs.

Senator MELCHER. There is just no barrier then?

Ms. EARLY. Not that I am aware of.

Senator MELCHER. There are no restrictions by GATT. Or any other barrier that you know of?

Ms. EARLY. No.

Senator MELCHER. You stressed the familiarity of a product or commodity as being essential for developing trade. You also mentioned private organizations such as U.S. Wheat. Most countries are familiar with basic commodities are they not?

Mr. MAYER. They are, Senator, but let me point out that just 2 days ago in the paper there was a long article on one of the buyers from Bangladesh who was here and being shown around this country to familiarize him with wheat growing and marketing, and the point was made that traditionally they have eaten rice in Bangladesh, that is their staple crop, and that what U.S. Wheat is trying to do is to familiarize those consumers with the benefits of eating wheat and flour and bread, and if they can convince them of this that they can grow quite a market for U.S. wheat. That is just one of the examples.

Senator MELCHER. Well, it is not that there is not a market for U.S. wheat, is it? You are not saying that?

Mr. MAYER. No; I am just saying it can be expanded through market development efforts.

Senator MELCHER. It is an ongoing effort then.

Mr. MAYER. It is an ongoing, long-term effort. It is not going to solve the long-term surplus, as you know.

Senator MELCHER. There are 100 million people in Bangladesh, living in an area about a third the size of Montana. This is obviously a food shortage country. How much wheat did we sell or donate to Bangladesh last year?

Mr. MAYER. I guess I would have to get that for the record, Senator. I do not have that number with me.

Senator MELCHER. Would you guess it is more than 1 million tons?

Mr. MAYER. Senator, I just have no idea.

Senator MELCHER. We have these huge surpluses and we are trying to get rid of them. There are two reasons to do so. One is to help them, and the second is to help us. We agree on that, I think.

Mr. MAYER. Senator, if I might just say we are all very interested in getting rid of grain, but the magnitude of the problem is oftentimes not understood. This year we are in, this marketing year we are exporting 62 million tons of grain. That is an awful lot of grain. But at the same time that we have exported 62 million tons, our stockpiles have gone up by 81 million tons.

Senator MELCHER. How much has that 62 million declined from 1981?

Mr. MAYER. It is 94 million tons roughly in 1983 and 1984.

Senator MELCHER. And 1981 was even more, right?

Mr. MAYER. It may have been a little more, 100 million.

Senator MELCHER. So we have witnessed a decline in the last 2 years of at least one-third and perhaps as much as a half?

Mr. MAYER. But world trade in grain is also down fairly significantly, so that illustrates the problem.

Senator MELCHER. What is the advantage of moving the grain out of surplus from the United States?

Mr. MAYER. Well, you pointed out, Senator, that the cost of storing this grain is going to be enormous, $1 to $2 billion. I have not looked into those figures, but I have no reason to argue with those. So anything that we can do to get the grain moving out of this country and out of our storage bins will certainly help cut the costs of these Government programs, which are just enormous this year.

Senator MELCHER. Does it not also have an effect on how much we pay out of the Treasury for deficiency payments to producers?

Mr. MAYER. To the extent that we can raise the market price above the loan level, that will cut the deficiency payments as well.

Senator MELCHER. Is it not a rule of thumb that if you dispose of 3 million metric tons of wheat, that would not otherwise be disposed of, it would raise the price a nickel?

Mr. MAYER. I would think that rule of thumb would work when there is a fair balance in the marketplace, but when you have such an overhanging surplus of the magnitude that is currently out there, I wonder whether that rule of thumb would be accurate or not.

Senator MELCHER. Do you think it ought to be more or less?

Mr. MAYER. No; I think it would be less. I think we could move——

Senator MELCHER. Four cents then?

Mr. MAYER. No. I think we could move a lot of grain before it would raise the market price very much.

Senator MELCHER. Does the Department still use the other rule of thumb, that if God is good to us and we get 3 million metric tons more produced in this country, it will lower the price 15 cents?

Mr. MAYER. But that is only if the market price is above the loan rate, Senator. As you know, once it goes to the loan rate, it cannot go any further down. And I would say by the same token, by the same argument, that when there is such a huge surplus overhanging the market, you can use up quite a bit of it before you begin to bring the price up.

Senator MELCHER. Whatever the rule of thumb there is some point where if we dispose of a quantity that we would not have otherwise disposed of, we do raise the bottom price of the market, is that right?

Mr. MAYER. Yes, and I want to make clear that we are very interested—let me reiterated, we are very interested in moving more grain. That is not an issue.

Senator MELCHER. Then we ought to be interested in this: The Food and Agriculture Organization tells us that in this country we consume individually 87 kilos of wheat per year. In Latin America it is 56 kilos. In India it is 56 kilos. That is the average consumption per capita per year. But in Africa it is 18 kilos. That is one-fifth of what we consume as Americans per year. It is one-third of what Latin America and India consume in 1 year per capita. Further, the range in Africa runs from 3 kilos to 31 kilos. Is that not a vast potential for market development?

Mr. **Mayer**. Well, it is, Senator, but I do not want to sound negative but, as you know, if you eat grain directly, it takes far less grain to feed a person than if you feed it through livestock and consume the livestock product. So part of the difference in those kilos per capita is in eating habits. In the United States we eat tremendous amounts of beef. Every pound of beef takes 8 pounds of grain to feed it, and so it takes more pounds to feed a person if you are going to eat it as livestock, and Latin America would be true, too.

Senator **Melcher**. I'm talking about wheat. What amount of wheat do you think is fed to livestock in India?

Mr. **Mayer**. I did not realize that you were just talking about wheat. I thought you were talking about grain.

Senator **Melcher**. No; I'm talking about wheat.

Mr. **Mayer**. Well, that does change the situation somewhat. If it is just wheat, I would say those are rather interesting figures.

Senator **Melcher**. They are extremely interesting figures. Further, the Food and Agriculture Organization points out that in Africa the amount of wheat that is both produced and imported and given in food assistance adds up to about 5 million metric tons. But the unmet need, the shortage in sub-Saharan African countries is still 800,000 tons, virtually 1 million tons, and that it is increasing. Furthermore those are the statistics that they have garnered country by country but they do not include Nigeria which has 100 million people that you could add to that.

It is interesting to note that the Food and Agriculture Organization thinks that the needs are actually much greater. They feel that the figures actually underestimate the need. That would certainly be the case if the average consumption in Africa is 18 kilos compared to India's 56 or Latin America's 56 kilos per capita.

I think the market is there and I think the need is there. The question is why do we not use our surpluses to meet those needs? Is there any answer to that?

Mr. **Mayer**. Well, I have to point out, Senator, that we are providing some $8 billion of Government program assistance to export grain, and a tremendous amount of that is going toward wheat.

Senator **Melcher**. Why not use section 416, which is off budget. Then we do not have to talk about dollars. We just have to talk about lowering the surplus that we have already paid for.

Mr. **Mayer**. Just last week, we announced that we are making available some 650,000 tons of commodities under section 416.

Senator **Melcher**. Might I point out that Secretary Lyng's announcement last Thursday would make you think that was the end of it, just 650,000 metric tons. The opportunity should be for 10 to 15 million metric tons more to be moved under section 416. Does that not strike you as sort of a 10 percent sort of announcement?

Mr. **Mayer**. Well, I think probably reasonable men differ on the size, what 416 should be.

Senator **Melcher**. Do you think I am unreasonable?

Mr. Mayer. No; I think you are reasonable on the high end and perhaps we could be challenged as being reasonable on the low end.

Senator Melcher. You certainly could be challenged on being unreasonable on the low end.

Mr. Mayer. Well, I——

Senator Melcher. When are we supposed to cooperate here and have a bipartisan approach? There is an election fast coming.

Mr. Mayer. I do not think I am going to win this argument, Senator.

Senator Boschwitz. What would be the impact, Leo, on the commercial markets where we have 62 million tons, if suddenly we would involve ourselves with 15 million tons of donations? It is not quite clear to me where they would go.

Mr. Mayer. There would be a substantial substitution effect. We are already seeing it in some other programs, where we are pushing grain out rapidly. It comes back to the point that there are hungry people in the world and there are deficit areas in the world, but there is also a tremendous amount of grain around the world. Stockpiles are not only high in this country, they are high elsewhere around the world, and to the extent that we do pour grain, unless we target it very carefully, we are going to end up with replacing some of our own commercial sales.

Senator Boschwitz. Well, I would request, Leo, that you submit to us not only what displacement would take place, and nobody wants to see that the hungry fed more than I, but also what the transportation costs would be of this off-budget item of 416, what the processing costs would be, what the cargo preference penalties that we would have to pay and what CCC funds would have to be restored at some later date because those funds have to be replenished. I respectfully disagree with my friend from Montana about the cost-free aspects of all of that.

Senator Melcher. You brought out the interesting point on the costs and we might as well enter it in this hearing record, too, just as we did last week in the previous hearing record.

As to the costs under section 416, cannot those costs be borne entirely or to the degree you want by the recipient country selling part of the commodity to pay those costs?

Mr. Mayer. But, Senator, as you know, the CCC is capitalized at a certain level and that capital has to constantly be replenished to carry on programs in the future.

Senator Melcher. We ought to point out that under section 416 the arrangement can be made for the cost of shipping and the cost of processing be paid by reselling a portion of the commodity.

Mr. Mayer. Yes, you can allow a recipient country to sell part of the commodity, but that does not repay the CCC for the commodity.

Senator Melcher. No, it does not repay it. I am only talking about shipping costs and processing costs.

Mr. Mayer. Oh, certainly.

Senator Melcher. We have already paid for the commodity once.

Mr. Mayer. Yes.

Senator MELCHER. One last question. How many Foreign Agricultural Service people do you have posted in the nearly 40 sub-Saharan African countries?

Mr. MAYER. In sub-Saharan Africa, we have three different posts and I do not have the exact number of people, but we probably have an average of one to one and a half people per post.

Senator MELCHER. So you have about four and a half people——

Mr. MAYER. Probably.

Senator MELCHER [continuing]. Covering 40 countries in the greater part of Africa.

Mr. MAYER. Again, I would much prefer to submit for the record the number of people there, but it is not large.

Senator MELCHER. Well, is it less than 10?

Mr. MAYER. It probably is less than 10.

Senator MELCHER. Less than 10 for 40 countries in the greater part of Africa. Thank you.

Senator BOSCHWITZ. You might add to the questions that I asked you to respond to in writing, as we really do have to move along, what would happen to our commercial sales if we suddenly began to sell commercially 416 commodities for the purpose of paying the transportation and processing and other types of costs by selling them in the foreign market.

Senator Wilson?

Senator WILSON. Thank you very much, Mr. Chairman.

First a question for Ms. Early. I am much heartened by the remarks by my colleague, Senator McConnell. I am also pleased by the associated good news that the Koreans have omitted another area that does not have anything to do with agriculture, insurance and the protection of property rights, and I am one of the Ambassador's admirers. I think he has done an extraordinary job.

But I would like to get an update from you with respect to the so-called citrus-pasta negotiations. Again, I would like to think that the announced truce is going to bear fruit in the form of resolving both the 15-year-old citrus dispute and some of the misfortunes that have flown from it, notably the counter-retaliation against totally innocent bystanders, the growers of lemons and walnuts. Can you tell me whether or not it is realistic to expect that we will meet the August 1 deadline that has been announced by Ambassador Yeutter for the resolution of the citrus-pasta negotiations?

The date, as you know, is critical because the EEC shuts down for the month of August to take what may be a needed vacation, which I do not begrudge them. However, on their return in September they turn to business and governmental issues and if we do not have some resolution prior to their departure for vacation on August 1, we face, once again, the ritual certainty that the walnut growers, who have been the victims of this counter-retaliation, may experience another disastrous season.

In fact, they ship during the very month of September, and if they are not permitted to regain markets that they have lost by virtue of this counter-retaliation, then they face another $2 million in higher retaliatory tariffs. They simply cannot afford to suffer that economic burden again. So, what is the update? What hope can you offer?

Ms. EARLY. Well, we are fully aware of the position of the walnut exporters, Senator, and how difficult it is for them right now. We do have a commitment from the European Community that we will resolve this by the end of July, given to Ambassador Yeutter by his counterpart, Mr. DeClerc.

We have a negotiator in Brussels now. He has been there for the last 2 weeks. We are making some progress we think. We are cautiously optimistic. I would think that we will have something more concrete by the end of this week.

Senator WILSON. Well, I am pleased that you do appreciate the seriousness of it and I urge you to keep the pressure on them.

In a similar vein, on the negotiations with Taiwan—if this country fails to implement the agreement with our country which was reached last October, an agreement intended to open up its markets to nearly $2 billion worth of American wine, beer and cigarettes, is the administration prepared to initiate a section 301 complaint and withdraw trade concessions?

Ms. EARLY. Well, we were in the verge of initiating a 301 when Taiwan came in and told us that they were going to make some changes in their monopolies which would remove the need for initiating a 301. Based on that, I would think if they do not follow up and take the measures that we anticipate they will, that we would initiate a 301 against those practices.

Senator WILSON. Well, has there been any action by them to implement that agreement since last October?

Ms. EARLY. Yes, we have had some bilateral meetings with them. What they said they would do is, of course, remove the discriminatory treatment, discriminatory markups that are charged on wine coming in from other countries, wine, tobacco, and beer coming in from Third countries, and I believe they are in the process of doing it now.

Senator WILSON. I would appreciate it if you could give me some specifics on that, because I am not aware——

Ms. EARLY. We will give you a full report for the record.

[The following information was subsequently received by the subcommittee:]

REPORT ON THE LIBERALIZATION OF TAIWAN'S TOBACCO AND WINE MONOPOLY BUREAU

On October 16, 1985, Taiwan, through the Coordination Council for North American Affairs, agreed to improve access to its market for U.S. wine, beer and cigarettes to avoid our self-initiation of a section 301 case against the restrictive import practices of the Taiwan Tobacco and Wine Monopoly Bureau.

The agreement includes the following commitments:

(1) To allow the importation of U.S. beer;

(2) to permit U.S. wine, beer and cigarettes to be distributed to all retail outlets in which domestic products are sold;

(3) to price mark-ups (including all taxes and profits) for U.S. wine, beer and cigarettes at no greater a percentage than that set for domestic products;

(4) to permit U.S. wine, beer and cigarettes firms to have their own representatives in Taiwan and to promote their products directly to all retail outlets selling wine, beer and cigarettes; and

(5) to take immediate steps to begin implementation of these commitments with full implementation within six to twelve months.

Proposals to implement these commitments have been discussed with Taiwan authorities since December, 1985. However, only the first commitment i.e. to allow the importation of U.S. beer has been implemented effective January 1, 1986 under the regulations currently applicable to U.S. wine and cigarettes. The Monopoly Bureau is to revise the regulations governing the importation of all three products no later than October 1, 1986 to meet the remaining commitments of the agreement.

The major elements of the liberalization package involve the role of the Monopoly Bureau as importer and the access by representatives of the U.S. firms to the commercial distribution channels. Under the new system, the Monopoly Bureau will act as the importer of record. U.S. firms, their representatives, or their designated local agents may place orders with the Monopoly Bureau at any time and for whatever quantities and brands they desire.

While the Monopoly Bureau must still technically approve the import request, it will no longer restrict the timing, quantity or brand selection of each import shipment. The Monopoly Bureau will transfer possession of the import shipments following inspection of the shipments at either the port of entry or the Monopoly Bureau's temporary warehouse facility. Distribution of the goods to any of the 70,000 authorized retail outlets will be the sole responsibility of the U.S. firms.

Advertisements for U.S. wine, beer and cigarettes will be limited to tourist magazines and displays at the retail outlets; this restriction applies to domestic products as well. However, the Monopoly Bureau has agreed to consult with us concerning additional promotional activities for U.S. products and has indictated a willingness to permit certain "start up" promotions.

Several issues concerning the construction of a formula for calculating retail price and mark-ups need further clarification. We have submitted a list of questions to the Monopoly Bureau seeking a more detailed explanation of the way in which warehouse and transportation fees, commodity taxes, excise taxes and Monopoly Bureau profits are to be determined. We are working closely with our private sector to ensure that the final pricing formula does not have a negative effect on the competitiveness of U.S. prouducts in the Taiwan market. Further discussions with the Monopoly Bureau on this issue will likely occur in late August.

Senator **Wilson**. Again, with the Japanese, I am at a loss to understand why it was that the USTR transferred the negotiating authority on wine access under the Wine Equity Act from your office and from the Department of Agriculture, both of which have on their staffs very experienced and skilled negotiators, people who have specifically become very knowledgeable about not only wine exporting but about the Japanese market in particular. This has been transferred now to the Treasury Department, as I understand it, at the request of the Japanese, so that they could deal with counterparts of the Finance Minister, which to me is quite frankly a grossly inadequate reason for doing so.

I think what it is, plain and simple, is an effort to try to slow down and stall the negotiations, bring in new players who, as we know, will require time to get up to speed, and simply, continue to delay and stonewall. I make no bones of the fact that I think it is a mistake. Is this to your knowledge going forward, to transfer responsibility for negotiating authority?

Ms. **Early**. Yes, it is, Senator Wilson. I might say we appreciate your confidence in our ability. I am sure the USDA does also. There were meetings with the Japanese last week in Tokyo to talk about wine and alcoholic beverage barriers.

One of the focuses right now is Japanese tax policies. The Japanese are going to be making some substantial changes, we hope, and I think it was for this reason that Treasury was selected to head the negotiations right now.

However, on the delegation is a representative from my office, who has been involved in the wine discussions throughout, and we also had representation from USDA in Tokyo. So while the person heading the negotiations has changed, I do not think that they have suffered at all.

Senator WILSON. Well, I am heartened by that. I hope that is true. I have a great interest, as you know, and will continue to monitor the progress or lack of progress as it develops.

Mr. Mayer, let me ask you a question about targeted export assistance. In addition to authorizing the Department of Agriculture to offset unfair trading practice through promotional funds for new markets, the provisions of the 1985 farm bill that authorized targeted export assistance also direct the Department of Agriculture to counter unfair trading practices, such as the EEC's increased retaliatory tariffs, as a matter of counter-retaliation in this citrus-pasta war.

I have sent two letters now. The latest spelled out in detail the legislative history of an amendment on the floor that was specifically aimed at curing the deficiency in authority that was otherwise thought to exist so that there could be a countering of counter-retaliation in addition to dealing with subsidies by the EC through promotional assistance. Yet somehow, even though it has been plainly spelled out, I am getting the same response.

What must we in the Congress do to make clear the purpose to the Under Secretary, in particular?

Mr. MAYER. Well, Senator, we have announced approximately $60 million of program allocations under that particular target Export Assistance Program. That is $60 million of the $110 million that was appropriated for it. I do not have the details with me on exactly what that $60 million covers. We can supply that for the record. I would say, though, that in the area of agricultural trade, $110 million is not a very large sum to counter in the subsidies of other countries. That would actually get you into the first round of the poker game, but it is certainly not going to let you stay the course and win any big hand.

The other thing is I would point out that this is just the first of three hearings and the third hearing you will get a chance to talk to the Under Secretary directly. Perhaps my best thought is that you express——

Senator WILSON. I will let him fight his own battles. Well, I will bear in mind that he will testify before this committee and you can tell him that I am awaiting his appearance here and awaiting a better answer than I received. I think that officials at the Department are entitled to point out to us that we have not provided a great deal in terms of the magnitude of the need for both purposes. I do not know when there is a clearer example of the kind of thing which is a national policy that we need to make a national response to than when there is what we deem to be a totally unfair counter-retaliation against totally uninvolved commodity groups as the European response to a 301 action by the United States. I do not know what could be clearer than that.

Mr. Mayer, let me ask you a different question. Much of the early part of your statement recounts the successes of FAS' cooperator program, and I generally share that favorable assessment and believe that joint funding through matching contributions from Government and industry for these marketing development programs makes sense.

Why then has the administration recommended a 50 percent reduction in what we seem to agree is a cost-effective successful Export Promotion Program?

Mr. MAYER. Well, the administration has had the policy for some time of trying to shift the costs of these programs to the benefactors, namely the growers. It is not only in the area of the cooperator programs that this has been true. As you know, we are also in the process of selling all our publications. That just illustrates the breadth of the change that this administration is trying to bring to Government.

Now, we were successful in preventing the even sharper reduction that had been originally proposed in that budget, and as it turns out now Congress is also taking steps to place some of that money back in the budget, so it is not going to be as severe as originally thought.

Senator WILSON. Mr. Chairman, let me just say that I think we are particularly indebted to you for holding this set of hearings, because they are not only generating a great deal of information, but they are making much more precise the focus of our programs in this area. I think that needs to be done.

One of the things I think we need to understand is that while you and I and presumably the Department of Agriculture and this administration deplore the kind of subsidy war in which we have found ourselves engaged—and I might say with the odds rather heavily against us in terms of the commitment of the EC as compared with what we are providing—it is nonetheless naive to simply respond with platitudes to unfair trading practices. We are engaged in a contest with the EC, or with someone who in the person of the EC, is attempting to bring back mercantilism and make it a high art. And for us to wish that life were otherwise is not going to produce a change.

I would be delighted if we could, as I believe Ms. Early indicated in her statement, turn to a completely different form of trade in which neither side is engaged in these subsidy wars.

But I must say that I think we are in need of determining when a national policy is required and then determining whether or not we are going to push the brunt of the economic burden of that policy off on a very narrow segment of our economy. I do not think that is fair. I do not think it was fair when we engaged in the grain boycotts with the Soviet Union. I do not think it is fair to those that are the victims of counter-retaliation as an unfair trading practice.

So I think we need to come to grips rather explicitly in terms of our policy of what we are prepared to do as a nation in order to make good on the retaliation and the kind of policies that are going to be successful in making change, and I do not think that we have fully done so.

I think your hearings offer us the opportunity to achieve that, and I think we need to achieve it. So, I look forward to the completion of the hearings and all that they are going to produce, and I hope that they will produce a sharper focus by us. If they do, I think we will be even more successful in the kind of partnership that I think already has produced results in terms of a community of clear purpose between Ambassador Yeutter's office and the administration generally and the Congress.

I thank you for what you have done. I think that our work is not yet done. I think we need to be clearer.

Senator **Boschwitz**. Thank you, Senator.

We now will turn to our second panel, Dr. Robert Paarlberg and Turner Oyloe.

I would ask Mr. Oyloe, I have seen his testimony, I note in your testimony that you relate some of the difficulty that you had in your experiences of 10 or 12 years with the European Community and I hope you will review them, but I also hope that you will address whether or not you reasonably see that we are going to be able to negotiate with them and get out from all of that or if it is just going to continue to be a confrontation. What are the opportunities—I would direct this specific question to you—the opportunities of coming to terms with the European Community.

Dr. Paarlberg, I hope you will also give us an overview of what you think the opportunities are for having an atmosphere and an environment of less trade barriers. Otherwise, I would agree with Senator Wilson that we cannot wish these things away and that we cannot just allow ourselves to be victimized by this and turn the other cheek. It is not going to work that way.

Senator **Wilson**. Mr. Chairman, may I interrupt?

Senator **Boschwitz**. Yes.

Senator **Wilson**. I have not only a keen interest but an absolute fascination in the answer by the witness. Unhappily, I have got to leave, so I hope it will be understood that it is not for lack of interest. I will read the record and again wish to thank these gentlemen.

Senator **Boschwitz**. Knowing your interest, Senator, I will talk to you about it and relate to you a summary of the witnesses' testimony. Dr. Paarlberg.

STATEMENT OF ROBERT PAARLBERG, PROFESSOR OF POLITICAL SCIENCE, WELLESLEY COLLEGE

Mr. **Paarlberg**. Thank you, Mr. Chairman.*

I would like to address myself to the question you raised several times this morning, of how we can begin pulling down some of these barriers to international agricultural trade. More precisely, I want to ask, "Is this a job for the GATT"

My own views on the GATT and agricultural trade will strike you at first as pessimistic. I will be arguing this morning that the up-coming round of GATT talks is not likely by itself to produce the movement toward a more liberal agricultural trading system that we are all in search of. But my larger point will be to remind us that the task of agricultural trade liberalization, fortunately, does not have to be entrusted exclusively to GATT. There are things that the United States can do without waiting for GATT.

First, let me give GATT its due. The General Agreement on Tariffs and Trade has had spectacular success over the years in helping nations to reduce tariff barriers to manufactured trade. Since

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*See p. 385 for the prepared statement of Mr. Paarlberg.

1949, seven successive rounds of multilateral GATT negotiations have reduced the average tariff on manufactured trade from the original postwar level of above 40 percent down to less than 5 percent today.

Unfortunately, this GATT achievement in reducing tariff barriers to manufactured trade is not easily transferable into the realm of agriculture. The tariff barriers to manfactured trade that were successfully reduced by GATT over the years were all fixed border taxes, applied only to imports. They all had effects on trade which were transparent, relatively constant, and easy to quantify. Also, these tariffs on manufactured trade usually stood alone. They seldom were tied to elaborate domestic industrial policy mechanisms.

For all these reasons, it was not too difficult for teams of GATT negotiators to reach agreement on the phased reduction or the elimination of these barriers, particularly in view of lessons learned in the 1930's, when the sudden multilateral increase of these tariffs choked off trade and deepened the Great Depression. One lesson learned was that multilateral tariff reductions negotiated in GATT were good for all.

In agriculture, for curious reasons, a somewhat different lesson was learned from the Great Depression. The crisis of the 1930's somehow persuaded agriculturalists to place less trust in the revival of free international trade and more trust in the regulation and the support of domestic farm trade. In 1933, therefore, the United States joined most other industrial nations of the world in imposing considerable regulation on domestic farm markets, far more than anything ever seen in industry.

It is because of this tight domestic regulation of agriculture that most industrial nations today feel they must intervene so heavily in international agricultural trade. Without international policies to adjust farm trade at the border, the domestic policies that fix prices and constrain farm trade within our borders would not be able to function, at least not at acceptable cost to taxpayers.

In this sense, farm trade barriers at the border are not really designed to protect farms. It is in most cases more accurate to say that they are designed to protect domestic farm programs.

In order to perform this function, these international farm trade barriers must, of course, be just as numerous and just as complicated as the domestic farm programs which they have been designed to protect. They also must be highly changeable in their impact on trade, since they must be able to compensate for all of the inflexibility and the unchangeability of domestic farm support and regulation measures.

To meet all of these specifications, most farm trade barriers must be designed as nontariff barriers, things like variable levies, import quotas, or export subsidies, and these nontariff barriers tend to produce trade effects which defy easy measurement. This further complicates the process within GATT of negotiating reciprocal reduction agreements.

Moreover, since most farm trade barriers are in place to protect domestic farm programs, an agreement to adjust those barriers will not be reachable without a simultaneous acceptance by all nations concerned of far-reaching domestic program change. It is this implied need to undertake far-reaching domestic policy reform which makes the removal of farm trade barriers so much more difficult than removal of industrial trade barriers.

In order for U.S. GATT negotiators to make any progress on farm trade liberalization in Geneva, they will need unprecedented authority given to them in advance to talk with foreign governments about possible changes in U.S. domestic agricultural policy. In fact, they will need authority to trade away——

Senator BOSCHWITZ. Just U.S. farm policy?

Mr. PAARLBERG. U.S. domestic farm policy.

Senator BOSCHWITZ. Our negotiators?

Mr. PAARLBERG. That is correct. They will need authority to trade away some of the more protective U.S. agricultural support measures, if they are to have any hope at all of being given parallel concessions by foreign governments. This trading of concessions is how GATT negotiations have always proceeded.

If history is any guide, the U.S. Congress, including the Agriculture Committee, will be reluctant to grant U.S. GATT negotiators this sort of sweeping authority in advance.

Senator BOSCHWITZ. I am afraid you are right.

Mr. PAARLBERG. And even if the U.S. Congress were willing to delegate sufficient power over farm policy to our GATT negotiators, will political authorities in other nations do the same? Will the all powerful Council of Agricultural Ministers inside the European Community, which has long enjoyed exclusive authority to manage the Common Agricultural Policy, will they hand over that authority to "Eurocrats" from the EC Commission, for the purpose of enabling these EC negotiators to offer concessions to the United States.

Once again, if history is any guide, the European Community negotiators will come to the table in Geneva, just like U.S. negotiators, not authorized to offer any concessions that might imply a significant change in the existing mechanisms of domestic farm policy.

Little wonder, with all of these facts in mind, that over the years GATT negotiations on agricultural trade liberalization have produced such modest results.

During the 1959 to 1961 Dillon Round, agricultural programs were set aside altogether through a series of special "standstill" agreements. During the 1963 to 1967 Kennedy Round, the European Community was too busy increasing its own farm protection levels at home under the newly elaborated Common Agricultural Policy to spend much time even talking in GATT about the problem of negotiating international farm trade liberalization.

Actually, a much earlier sign that GATT was going to have trouble liberalizing agricultural trade came at the very beginning, when it was the United States, as Suzanne earlier mentioned this morning, that insisted on certain illiberal exceptions for agriculture. For example, the exception written into GATT rules which allows in some circumstances the use of quantitative restrictions on imports of agricultural products. Without such exceptions, U.S. domestic farm programs would not have been able to function and Congress would have rejected the GATT process from the start.

Unfortunately, not even these special exceptions were enough to allow the United States to continue some of its domestic farm programs, with the approval of GATT, especially dairy programs, which used import quotas which were unaccompanied by any of the requisite production controls needed to satisfy article 11 of the GATT.

A formal finding was reached in 1951 that the United States had infringed on article 11. Congress nonetheless went ahead to amend basic U.S. farm legislation in section 22 to require that the administration impose quantitative restrictions or special fees whenever domestic support programs are endangered by free trade.

The existence of this legislative provision made it necessary for the United States in 1955 to ask for a permanent waiver from even the watered down import liberalization requirements that it had helped to write into article 11.

GATT rules were also originally written at the insistence of the United States with an exception to permit the use of highly illiberal agricultural export subsidies. It was the European Community, unfortunately, which took greatest advantage of this export subsidy exception, once the Common Agricultural Policy began generating enormous surpluses that could not be easily disposed of in any other way.

This turnabout prompted the United States during the Tokyo Round of GATT negotiations to insist upon the creation of a special subsidies code which tightened GATT language against some kinds of farm export subsidies and which created a multilateral mechanism through which signatories were told they could enforce their rights under this code.

Unfortunately, the first important test of this new dispute settlement mechanism, in the case of European Community wheat flour export subsidies, was a disappointing failure. In February 1983, after 6 years of delay, the subsidies code mechanism yielded only an ambiguous nonverdict. Of course, by then the code mechanism had become less relevant in any case, since the United States had begun retaliating against the European Community with wheat flour export subsidy programs of its own.

The United States has done no better in its many other attempts to resolve export subsidy disputes through GATT. A GATT panel did decide in favor of a U.S. protest against subsidized EC pasta exports, which were penetrating the U.S. market directly, but the European Community ignored the finding. The European Community also ignored a panel recommendation that it alleviate injury to the U.S. citrus industry by reducing its preferential citrus imports from Mediterranean countries.

The United States, as was mentioned earlier this morning, finally out of frustration responded to these GATT settlement failures last year with the unilateral increase in its own tariffs on imported pasta, but the European Community then counter-retaliated by increasing customs duties on fresh lemons and walnuts.

GATT rules have also failed so far to force the European Community to compensate the United States for the trade losses that will be suffered in Spain and Portugal, as a result of the recent Community enlargement.

The United States believes that it is entitled under article 24.6 of the GATT to an intraline credit, meaning that compensation for farm trade damages will have to come in the form of farm trade concessions. European Community officials have admitted that this U.S. interpretation of GATT rules is literally correct, but they have rejected intraline credits on the grounds that these are somehow impractical for actually doing business in international agricultural trade.

I conclude from this long record of frustration that the well-established and well-practiced GATT techniques of international negotiation and rulemaking, techniques that have done so much to liberalize trade in industry, are not a proven means of liberalizing trade in agriculture.

GATT has repeatedly failed at this task in the past, and I see few reasons to forecast a sudden switch to success in the near future.

It is therefore fortunate, I believe, that the United States does not have to rely exclusively on GATT if its purpose is to seek a liberalization of international farm trade. At least in those international farm markets where the United States is a large and low-cost producer, significant progress toward liberalization abroad can be made by the United States acting, unilaterally if necessary, to liberalize farm support policies of its own at home. It will also be important to discipline our macroeconomic policies at home, so as to control the exchange rate fluctuations that have also recently reduced the efficiency of international farm trade.

Let me be clear, I am not talking about what some people have——

Senator BOSCHWITZ. Some people have conditions.

Mr. PAARLBERG. I am not talking about what some people have called unilateral farm policy disarmament. I am suggesting that we "go first" on liberalization, but by going first with more liberal domestic farm policy reforms here in the United States, reforms which place our most efficient farm producers in a more competitive international trade posture, by doing this the United States is not giving away anything. This is not a concession. This is a favor we do to ourselves.

By going first in this fashion, the United States is in fact getting something back. The United States is reversing the recent pattern of noncompetitive export pricing, which was a giveaway trade policy of significant proportions for the United States in recent years.

Too many of the farm policy actions that have been taken at home by the United States in recent years—most obviously the 1983 PIK Acreage Reduction Program—only made it easier, made it more affordable for our less efficient foreign competitors to maintain their own protective farm trade policies—the policies we complain about so much—and to capture larger market shares abroad at our expense.

Our schizophrenic macroeconomic policies made things worse by driving up dollar exchange rates. By liberalizing our own farm policies here at home, on our own initiative, and by disciplining our macroeconomic policies, in other words by unilaterally removing the unwitting assistance which we have been giving to our less efficient foreign farm trade competitors, we can immediately accomplish several things without having to wait for an improbable success in the GATT.

First, we can increase the U.S. share of the world farm exports; second, we can reduce the intolerable budget costs of our own farm programs; and, third, we can increase the budget costs of the market distorting farm programs which our competitors have recently found it so affordable to maintain abroad.

As those budget costs increase, prospects for parallel internal reforms abroad will then increase as well. For example, the internal farm price and production restraints which we want within the European Community today, are more likely to come in response to internal European Community budget pressures, than in response to any combination of reasoned arguments or reciprocal concessions, or even threats of retaliation, that the United States might put forward in GATT.

And the United States has it within its power to create additional budget pressures inside the European Community through the unilateral embrace, if necessary, of more liberal domestic price and production policies here at home. Lower U.S. dollar exchange rates and commodity loan rates have already done more this year to push up the cost of foreign farm programs, and to pressure our foreign competitors into liberalization, than anything we could have been offering them in GATT.

In the end, therefore, while I am admittedly something of a pessimist on the role which GATT can play in leading the way toward farm trade liberalization, I consider myself an optimist on the role which the United States can play by continuing to move its own policies in that more liberal direction on its own initiative.

Thank you.

Senator **Boschwitz**. I was going to say, Dr. Paarlberg, as I listened to the first 75 percent of your testimony, that you are going to have to bring some more optimism here to the committee if you are going to be invited back. It seemed that there was no solution to some of these things.

You, a couple of pages back there, related three things: No. 1, the unilateral actions that we could take and the pressures that it would impose upon the Europeans, and you said at that time that if we took these unilateral actions it would also ease the budgetary pressures that we have on the Federal budget which bears a relationship to the cost of a monetary policy, which is very, very difficult to achieve.

Would you be more specific in outlining what you have in mind, the unilateral actions that we can take that would also benefit our producers and simultaneously make it difficult for the Europeans, since they are the principal culprits, and also simultaneously ease the impact on our domestic budget?

Mr. **Paarlberg**. These more liberal domestic agricultural policies would have to include, of course, market-oriented target prices as well as loan rates. The 1985 farm bill goes half way in this direction, but by going only half way—by lowering loan rates but not target prices—it produces enormous budgetary exposure which could in the months or years ahead tempt the United States into what I think would be a mistaken return to the massive acreage reduction, the massive production control policies that we tried in

1983 under PIK, and which gave our less efficient export competitors a free ride to expand their production and their market share at our expense.

Senator Boschwitz. I think we laid aside 80 million acres that year and as I recall 60 million acres came into production worldwide. And even as we reduce the wheat this year, I read that the Canadians are increasing their wheat acreage. I quite agree though, it surprises me that the Canadians are doing that, quite frankly, as we have lowered the loan rates. They do not take us seriously.

So the liberalization, as you call it, of the internal domestic farm policies would be not only a phasing down of the loan rates but also phasing down of the target price.

Mr. Paarlberg. That is what makes staying the course affordable and that is what makes our promise to stay the course credible to the Canadians and some others, and that is what speeds the process of recovering our position in the market.

Senator Boschwitz. I might say that when Senator Boren and I introduced the farm bill, one of the principal features of which was very low loan rates, a declining target price so that over 6 years the deficiency payment would be about 50 percent of what it is now, but a very low loan rate and then saying that if the market price rises above the loan rate, that that would enure to the benefit of the farmer, rather than just reducing the deficiency payment, so that if you are going to return the farmer to the market, give him the advantages of the market at the early juncture. Unfortunately, perhaps we did not express it right or perhaps it was too revolutionary an idea, but somehow we were to guarantee the farmer the guarantee of what they were to receive became the important element in the farm bill.

We thank you very much for your testimony. It was very interesting. It was somewhat disconcerting to hear you detail the attempts at negotiations over the years and their lack of success, so that you remain relatively pessimistic of what will happen in Uruguay.

Mr. Paarlberg. If we rely primarily and exclusively on international negotiations, trying to put together a package of bargained out deals in GATT talks, if we pay no attention to the opportunity and the obligation to address some of our domestic agricultural policies, we will make it easier for others to continue avoiding that opportunity and that obligation, and the international talks will come to very little.

As I said, international agricultural trade barriers are not usually undertaken at the border in response to what foreigners are up to. They are undertaken at the border to protect domestic farm programs, and until those domestic farm programs are dealt with, trade barriers at the border are unlikely to be removed.

And dealing with domestic farm programs is something that GATT has never claimed much success in.

Senator Boschwitz. And you feel that the principal reform that is needed in U.S. domestic farm policy is a decline in the target price so that our friends in other nations will realize that we have the wherewithal and also the determination to stay the course in these matters. Am I expressing it correctly?

Mr. Paarlberg. Yes, to send a proper signal to them so that they are not holding on to their policies in anticipation that we will give up ours under budget pressures. You relieve the budget pressure by lowering target prices, and we will be less likely to give up, and they will be less likely to expect us to give up.

Also, frankly, we then protect ourselves from what would otherwise be the temptation to return too quickly to massive acreage reductions.

Senator Boschwitz. Set-asides. I agree, as you may know, in the farm bill that we introduced, we had no set-asides, while we had a conservation reserve not much different than what was eventually adopted. Nevertheless, we had no set-asides whatsoever.

We also had a program for marketing loans in 1985 which I think may have been perhaps less costly and more direct and more universal, not as discriminatory as our present Export Enhancement Program appears to be.

If all barriers—let us dream for a moment and say that all barriers were removed by all nations, what do you think would happen to trade, what would happen to farm prices? All barriers, I guess we would have to include, if all barriers were removed and if all farm programs were laid aside, and let us say they were phased down, we now arrive at a phasedown year, the fifth year out, what would happen to farm prices and farm trade in your judgment?

Mr. Paarlberg. I suspect that you have taken more detailed testimony on precisely this matter at earlier sessions. The price changes in international markets might not be as dramatic as some suspect. Prices would go up, because the industrial countries which dump surplus production onto international markets would stop.

But, some of the more important changes would be seen in the stability of international prices. The function of most international agricultural trade barriers is, of course, to produce an artificial stability for food and agricultural prices within countries. That can only be done by inducing an artificial instability into agricultural prices in international trade.

If these interventions in trade were removed or relaxed, the notorious instability of international agricultural prices would be moderated. Also, under free trade the efficiency of production would increase, some crops would be produced by those who produce the lowest cost, rather than by those that receive the largest Government subsidy.

So although the average international price level might not change dramatically, the stability of international prices would be improved, the location of production would be far more efficient, and with more efficient production and stable prices the volume of trade would expand. So there are a number of benefits in addition to specific changes in average price levels that could be anticipated from agricultural trade liberalization.

Senator Boschwitz. I would agree with that analysis, I might say. I would like to get together with you and try to figure out what a Senator can do to bring about that result without falling on one's sword politically. You know, we are willing to take some risks in that regard, too.

Well, we now turn to—please say your last name.

Mr. **Oyloe**. Mr. Chairman, my name is Oyloe. You should also know that I am from Slayton.

Senator **Boschwitz**. You are from Slayton?

Mr. **Oyloe**. Slayton, yes. That is where Vinnie Webber is from.

Senator **Boschwitz**. Yes. I have not met any of your family down there.

Mr. **Oyloe**. That is because——

Senator **Boschwitz**. They must be Democrats.

Mr. **Oyloe** [continuing]. That is next to the South Dakota border.

Senator **Boschwitz**. And they escaped, did they?

Mr. **Oyloe**. I am not going to go through my paper because that is not the question you are asking.

Senator **Boschwitz**. No.

Mr. **Oyloe**. But I would like to try to——

Senator **Boschwitz**. I have read your paper. I read it as some of the questioning was going on. What I am really interested in—and I want you to address whatever issue you want to address as well—but you have had I think it says 12 years in the European Community?

Mr. **Oyloe**. Yes; I have spent 12 years in the European Community. I started my career in the Government with the European Community in——

Senator **Boschwitz**. Interestingly, I think your slot is now being filled by somebody just down the road from you, from Fulder.

Mr. **Oyloe**. Yes, he is from Minnesota, too, Bud Anderson.

Senator **Boschwitz**. Yes.

Mr. **Oyloe**. Dick Smith is sitting back here, who is kind of burned out.

Senator **Boschwitz**. Is that what it is?

Mr. **Oyloe**. Yes. We ended up over there, right, Dick?

Senator **Boschwitz**. It is not his time to talk.

Mr. **Oyloe**. I would like to talk just a minute about——

Senator **Boschwitz**. Not only that, Anderson must have grown up 10 or 20 miles from you.

Mr. **Oyloe**. Yes; he is from Fulder.

Senator **Boschwitz**. Yes.

Mr. **Oyloe**. Fulder is a town that if you are driving too fast you will go through it by mistake.

Senator **Boschwitz**. Particularly these days anyway.

Mr. **Oyloe**. Especially with the way the economy is out there now.

Senator **Boschwitz**. Well, the banker at Fulder decided he would make an effort to retrieve some bad fortunes on the gaming tables of Las Vegas and he was not quite as lucky as he thought he was going to be.

STATEMENT OF TURNER L. OYLOE, EXECUTIVE DIRECTOR, AGRICULTURE COUNCIL OF AMERICA

Mr. **Oyloe**. Unfortunately, that is true.

I would like to just carry on with what Mr. Paarlberg said and say that I am amazed that an academic knows so much about trade policy, because I found very few things to disagree with him on.[5]

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[5] See p. 383 for the prepared statement of Mr. Oyloe.

I would say, though, that there are a few points. One is that, Mr. Paarlberg, the subsidy code that we ended up with in the last trade negotiations was not something that get excited about. It was a drastic situation we ran into.

What we were really trying to do was reduce, shall we say, the sideboards of the subsidy code, and we ended up increasing them, giving the Community exactly what they wanted, and that is the freedom to subsidize exports every place they so chose to do.

The main things that Mr. Paarlberg said—and I have to agree with him—is that really I do not believe that the GATT negotiations are going to fulfill any long-term requirement for the United States based on past history. I have gone through the Dillon Round modestly, the Kennedy Round, the Tokyo Round, and MTN is just not the place that one is going to come to some grandiose conclusions on matters of liberal trade.

It is, however, a forum and it should be looked upon as a forum where countries have the ability to talk to each other and to have a group of international civil servants available who are experts. But the round itself is not really going to settle the issue in my opinion.

What is going to settle the issue are the points Mr. Paarlberg made, and that is basically bilateral negotiations with the major factors, and the major factor being the European Community for a number of reasons. One is, it is one of the major exporting country nations of the world; second, it has the economic strength to subsidize exports and to continue to do so in the future.

So the Community will be the major factor that we will have to deal with in any trade negotiations.

Now, what will affect the Community? Well, Mr. Paarlberg mentioned a few of the points. One is that any action by the United States showing our desire and willingness to survive in the longer run, including our increased competitive capabilities as outlined by Mr. Paarlberg are indeed very important. They are important for two reasons.

One is that we are in it for the long run, the Community will know that; two is that the budget costs in the Community has become a rather major factor. Now, let me explain why budget costs are bothering the European Community.

First of all, it is a fact that the European Community's economic development activities have not accelerated in the last few years. In fact, they have been rather diminished in most countries. So every time they have another billion dollars that they have to spend or units of account on agriculture, it means a billion units of account they cannot spend on hospitals or other reforms that they would like. So it is becoming a little tight for the moment there. They worry about the budget and anything that affects the budget is beginning to affect them.

So when we lowered our loan rates, they took this very seriously. Also they are taking very seriously the fact that their production of agricultural products now, any increase that they have becomes a budget cost. They can no longer give it to the consumer and say the consumer must pay higher prices. They have run out of that one because their self-sufficiency is so far above 100 percent in most basic commodities.

So we are really kind of stuck on this point. They know that they cannot continue what they have been doing in the past because they are faced with a runaway budget. They do not have restrictions on production, with the exception of dairy. Unfortunately, there is——

Senator BOSCHWITZ. They do not have restrictions on production?

Mr. OYLOE. Except for dairy. Now, one of the places where they would love to take some action, of course, is the two areas they still have deficits. One is vegetable oil and the other is protein meal, and their cost of growing rapeseed under their program now is very, very high because it has to compete with the imported soybeans and other protein meals and vegetable oils.

So I suppose what they would love to do, at least as a temporary measure, is to restrict the imports of U.S. soybeans and they only talk about this once a week, an oil tax, a quota on protein meal, some type of activity to restrict the imports of oil seed is always in the front of their minds.

So the budget cost, the actions by the United States, and I think the third point is the willingness of the United States to take action, and here I go along with the good Senator from California.

The Community has lived for a long time with the idea that the United States will not show a great deal of—will respond very vigorously——

Senator BOSCHWITZ. Bark but no bite.

Mr. OYLOE. Exactly. You said it, Senator, and I agree with you completely. They think they are going to talk us out of it and, quite frankly, based on past performance, they have done a very good job of it.

I think that when we decide to back our words with action, that they will begin to look at us more carefully than they have in the past, and what is true of the European Community I think is also true of other countries. And obviously Japan being one, Korea being another, and there are many others.

I think we have to get tough, and when I say we have to get tough, just talking is not enough. We have to start taking actions in such a manner to show that behind those words there is in fact a firm resolve.

I also agree with Mr. Paarlberg that the pressures that we are going to have on our domestic policy will also be observed by the Europeans and by other countries, and to the extent that they think we are going to withdraw into our shell, they will maintain a waiting attitude saying, well, let us wait a while and see what the Americans do.

Of course, I recall, and some people here do, that there was a professor from Minnesota, Will Cochran, who wrote a book, "Price Is Myth or Reality," about a closed society 30 years ago, and there are still people who believe that we can go back in that situation. I am not one of them.

So all in all, I would—again, I am sorry to say this, Mr. Paarlberg, but I will have to agree with most of the things you said.

I would be willing to answer any questions, Mr. Chairman.

Senator BOSCHWITZ. The first question is why are you sorry to disagree with Dr. Paarlberg?

Mr. OYLOE. Well, I think that the basic elements of the situation are in fact pretty much as he has stated. I do not know if he got that from me or I got it from him.

Senator BOSCHWITZ. Let me ask a question. Do you feel, as Dr. Paarlberg does, that the United States can act unilaterally? And what does it mean when you say we have to get tough, using my expression, that we have been barking but not biting? How do you bite well, first of all? And, second, what about the unilateral actions that Dr. Paarlberg mentioned?

Mr. OYLOE. Well, the first point is how do you take on these problems. I suppose that we have a good case in point right now with Spain on the issue of the imports of corn.

Now, as you know, our market there used to be between 3 and 5 million tons, depending upon the Spanish grain crop. We have gained 6 months of grace. We will probably export 2.7 million, maybe 3 million tons of corn to Spain this year.

The question in my mind is what happens next year. We have said that we have to have compensation in agriculture for the loss of that market. Now, if we get compensation, then I think we have met our requirement. We have said this is what we expect and this is what we will get.

Senator BOSCHWITZ. And your feeling is that we may have gotten it in the short term but so far have not traded that for the long term?

Mr. OYLOE. I am waiting. The question you ask, Mr. Chairman, was to give an example and this is my example. If in fact we gain $500 million worth of agricultural trade with the European Community and assuming we lose the corn market there, then we have put our actions behind our words. If we lose it, then we lose it and then we have the problem that we have had before.

Senator BOSCHWITZ. But how do you—I understand the example of Spain and Portugal being one where we should be able to test our own mettle and whether or not we really are serious about biting as well as barking, but how do you achieve the bite in a negotiated way? I mean is that the way to—how do you suggest—let us presume that they do not find themselves in agreement, that their past experience has been that they should not give in to us. If they do not give in to us, the consequences will not be so harsh.

Let us presume again that they are right once again on Spain and Portugal, how would you then suggest that we show our strong intention or how do we bite?

Mr. OYLOE. Well, I think that would be a matter of looking at the reverse trade in terms of what we are losing in agriculture and anticipate what the Community has to lose in agriculture and take the actions that would, shall we say, right the balance.

Senator BOSCHWITZ. So you would take retaliatory action——

Mr. OYLOE. Yes, I would.

Senator BOSCHWITZ [continuing]. Against some of their commodities?

Mr. OYLOE. I do not think there is any other choice.

Senator BOSCHWITZ. What do you think of Dr. Parrlberg's approach of lowering the target price, what are they going to think about that?

Mr. **Oyloe**. I think I can agree with Dr. Paarlberg on that point. I think that there are many people in Europe who are saying that our program costs too much money and that the Government will get bored or tired or feel that they just cannot afford to continue this program.

To the extent that we can lower the cost of our program and still increase our efficiency—and I think that is what Dr. Paarlberg has in mind—this will send messages to them that we are in the long run and that we have stability in our system which they question.

Senator **Boschwitz**. I can understand why.

Dr. Paarlberg, do you have any other comments that you wish to make?

Mr. **Paarlberg**. Let me make a very quick comment about the option of retaliation.

Senator **Boschwitz**. Do you want to speculate on why Mr. Oyloe does not want to agree with you?

Mr. **Paarlberg**. So long as we are here to sharpen distinctions, I might point out some disagreement on the attraction of retaliation. My own suspicion is that in an agricultural trade war against the European Community we would lose even more than the European Community. We would first lose more than they in an export subsidy war, because we would start such a war with much larger existing foreign markets to defend. We would have to outspend them simply to stay even, simply to protect our much larger existing foreign markets. We would also lose more in a competition to increase import restrictions, because on a bilateral dimension we still sell almost twice as much to them as they sell to us. If restrictions were placed on all bilateral sales, the United States would stand to lose twice as much.

So either an export subsidy war with the European Community or a bilateral contest of increasing import restrictions would damage us both. I agree with what has been said by others this morning, that we would both would be hurt. But my suspicion is that the United States would be damaged even more than the European Community. For that reason, I think we are unlikely to enjoy much leverage against the European Community when we threaten such a war. They can do the calculations as well as we. They can appreciate that we are threatening something that will do more damage to us than to them.

Senator **Boschwitz**. One of the things that has——

Mr. **Oyloe**. I have got to answer that question. I have to disagree with you, for two reasons. One is that most of the value of the product that we sell the Community is raw material and is used as an input and they need that protein. They need the protein that we are selling them. So I am not so certain—we are selling them basically raw materials and they are selling us finished goods. We can get along I think much more easily in terms of what the Europeans are selling us in agriculture than they can get along in terms of what they are buying from us. That is one point.

The second point is this: If we give in on this issue, the next issue is going to be soybeans and corn gluten feeds.

Senator **Boschwitz**. How can they? You just said that they——

Mr. **Oyloe**. In the short run it is going to hurt them more than it is us. In the longer run——

Senator BOSCHWITZ. Those are the raw materials, but I was going to say to you that I normally find the raw materials and commodities to be substitutable.

Mr. OYLOE. Well, I think that in fact they are substitutable, but being that we are such a major factor in the world corn market, the world wheat market, and the world soybean market, I do not think it would be quite that bad.

The second point is that if we give in, you can be assured that the salami tactics followed in the past will continue, so the question is perhaps if we take an action now we will be in better position to defend ourselves than if we allow this situation to deteriorate in the future. This again is a matter of tactics and strategy and very argumentative on both sides.

Senator BOSCHWITZ. Well, I thank you gentlemen. We have yet another panel and I have to be somewhere in half an hour so I would ask Vernon McMinimy, Richard Smith, and Bob Bryan to come up.

STATEMENT OF VERNON R. McMINIMY, DIRECTOR OF COMMODITY RESEARCH, A.E. STALEY MANUFACTURING CO.

Mr. MCMINIMY. I hope you will read our testimony later.[6]

Senator BOSCHWITZ. I will.

Mr. MCMINIMY. We are very pleased to be here and to have the opportunity to express to you our concerns as a private company as to the things that are going on in the international trade situation or some of the things that might go on in the international trade situation. They are of concern to us.

We are in a rather special situation, but then every producer is in a special situation with reference to his commodity. I hope you will appreciate that the comments that we make here today are from our perspective and our position in the world and our concerns reflect that position.

We are a major producer of corn sweeteners, that is our major product. Interestingly enough, in this last year corn sweeteners, the production and consumption of corn sweeteners in the United States exceeds that of sugarcane and beet sugar, for the first time. It is a new product. It is simply a product of technology.

Senator BOSCHWITZ. What happens to that product incidentally if we were to open our markets in sugar?

Mr. MCMINIMY. Well, if we were to eliminate our sugar program, I think we would suffer very severely. What would happen exactly is essentially a function of how much foreign governments would continue to subsidize their sugar production and exports. If they continue to subsidize it to the extent that they do today, where we now have international raw sugars in the world market selling for 6 cents a pound, that is the equivalent of 10 cents a pound refined, it would be very hard for us to stay in business as an industry.

Senator BOSCHWITZ. You are at about 12.5 cents refined, is that right?

Mr. MCMINIMY. Pardon?

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[6] See p. 391 for the prepared statement of Mr. McMinimy.

Senator BOSCHWITZ. Yours is the equivalent of about 12.5 cents refined or——

Mr. MCMINIMY. About 14 cents.

Senator BOSCHWITZ. Refined?

Mr. MCMINIMY. Refined.

Senator BOSCHWITZ. It would be unreasonable to suppose, however, that if we came onto the world market to buy sugar on the world market, that it would remain at 6 cents?

Mr. MCMINIMY. Correct.

Senator BOSCHWITZ. Pardon me. I did not mean to interrupt you.

Mr. MCMINIMY. One of the things that may be of interest to you at this point is the chart at the back of the statement which shows the estimate of world sweetener production costs. These are derived from information provided by Landell Mills, an economic consulting firm in London, and the only data that I know of that exists in the world today with reference to any agricultural commodity. This does relate to sugar.

One of the things it shows is on the left, the dark stripe there shows the U.S. cost of producing high fructose corn syrup, and you will note that it is around 15 cents, which is significantly below the average cost of production of world sugar as estimated by Landell Mills of 23 cents a pound.

Senator BOSCHWITZ. What is that at the end there, the very high——

Mr. MCMINIMY. I think that is Russia, not the little one but the big one.

Senator BOSCHWITZ. Where is the European, because they are very large?

Mr. MCMINIMY. They are around 23 or 24 cents.

Senator BOSCHWITZ. So the beets are up at the right end of this?

Mr. MCMINIMY. Correct, the U.S. beets. U.S. cane is around 20 cents, but very close to the U.S. support price. Some people have indicated that the U.S. support price has been an undue burden upon the United States but if you use this analysis and say that if you were to have a totally free market in sugar internationally recognize these are long-run cost of production estimates, the high-cost producers would fall out and this would suggest that you would have world sugar prices in the neighborhood of 41 cents a pound.

Senator BOSCHWITZ. What?

Mr. MCMINIMY. 41 cents a pound.

Senator BOSCHWITZ. That would not last very long, would it?

Mr. MCMINIMY. Well, if it is the long run cost of production, it should last a long time. You know, we only have an excess production of about 3 percent in world sugar over consumption, so to bring the world sugar market into equilibrium does not mean that everybody has to eliminate their sugar production. It means only 3 to 5 percent of the producers would have to. They would not occur in only one country. It would be distributed around the world. They would tend to be concentrated in high cost producing countries.

The interesting thing to me is that this market is so heavily impacted by government intervention, by government subsidies to the producer and in trade, that we do not know what economics really of that industry is. We have totally separated price and costs in that industry. This is of concern to us because we are vitally involved in it.

We have taken the risky venture of trying to estimate what the use of corn would be for sweeteners if there was no government intervention in the world at all.

Senator BOSCHWITZ. That is risky.

Mr. McMINIMY. And using the long-run cost of production analysis, I think we have made a yeoman effort to do that. It looks to us that if in the long run you had no government intervention and everybody was producing on the basis of long-run costs, you could expand the demand for corn in the world consumption by 3.2 billion bushels.

Today we use, what, about 750 million bushels in the world today, and 500 million bushels of that is in the United States. The rest of the world consumes or utilizes corn for sweetener production only half of the amount that is used in the United States and half of the sweetener consumption does not occur in the United States, only a relatively small proportion of it, maybe 14 percent.

So one of the things that we see as an impact of government intervention in the world markets—and we think sugar is particularly heavily impacted in this regard—is it develops the severe allocation problem not only for sugar per se but for other commodities as well.

One of the concerns that we have in this regard is that pressure for change is not going to lessen, it is going to increase and it is going to increase because most of pressure for change comes from new technology and we are developing new technology, and implementing new technology all the time, so the problems that we have in international trade today are the problems that have occurred from technology changes and conditions of the past.

The one thing that I am quite certain of is that those pressures are not going to lessen, they are going to increase. If we do not resolve or find a way to resolve these international problems today, they are going to be worse tomorrow, and the mass of government programs and government intervention and action that would be required to keep this whole thing together is going to expand considerably in future time versus the present.

We have a bigger problem today than we had 20 years ago and we will have a bigger problem 20 years from now than we have today if we do not address this.

I think one of the places that we need to start addressing this is in this new GATT round. It is our best first opportunity. I think one of the things that I would agree with Dr. Turner on is that you have to put some pain out there, you have to get some people in the frame of mind to negotiate, to give some concessions if you are going to make any progress in this.

We would like to see a subsidy code that might operate similarly as the tariff negotiations did earlier, where you start backing off or at least you limit the amount of subsidies that you put in the market from here on and see if we cannot reduce those.

One of the things that we are very concerned about in that whole process is that you do not, in doing your horse trading, trade off benefits from one area for benefits in another area. In other words, we at the Staley Co. do not want to be a victim of the resolution in some negotiated settlement in these negotiations to the benefit of somebody else in the agricultural community or nonagricultural community. We do not think that is fair. We do not think that is appropriate.

One of the things that we need to concentrate on and give greatest attention to in these negotiations is the developing and maintaining the integrity of the market, to bring price and costs closer together, rather than further apart like they are today. If we do not accomplish that, then I am afraid that we are going to find more and more of the market commodities, agricultural commodities of the world are going to become more like the sugar is today, which is a totally irrational market.

We cannot find any relationship between price in the international market and costs, and I am afraid that that is going to become more and more representative of more commodities if we do not do something to lessen Government intervention and let price be determined by cost of production, rather than Government's ability and interest in subsidizing.

Senator BOSCHWITZ. Well, I do not disagree.

Mr. MCMINIMY. That is essentially the thrust of our testimony. We know it is a different problem and we do not really want to end up being like Will Rogers who, during World War I when they were lamenting all the German submarines on the east coast, Will Rogers said, "Well, I know how to get rid of that problem." They said how do you do that, and he said, "You drain the Atlantic Ocean." They said well, how do you do that. He said, "Well, I'm not a do-it man, I am just an idea man." [Laughter.]

We do not really want to be like Will Rogers in that regard and anything that we can do to work with you, Senator, and with the Congress and the administration to address these concerns that we have expressed here today, we would be most happy to do that.

Thank you.

Senator BOSCHWITZ. Well, A.E. Staley has always been very cooperative in every regard. I will read your testimony and I wonder if you would just on the face of it put your address so in the event I wish to write to you about it, I will be able to do so.

Mr. MCMINIMY. My handwriting is rather poor. I will give you a card.

Senator BOSCHWITZ. Affix it to it.

We will now turn to the pork producers, and I would ask you, I am running out of time and I would ask you to, having spent the evening yesterday with my friend, Dick Smith, I turn first to the pork producers and may have to talk to Smith on the run here somewhere.

Mr. BRYAN. Thank you, Mr. Chairman. Do you have a copy of my testimony?

Senator BOSCHWITZ. I do.

STATEMENT OF BOBBY BRYAN, REPRESENTING NATIONAL PORK PRODUCERS COUNCIL; ACCOMPANIED BY DOYLE E. TALKINGTON

Mr. BRYAN. In the interests of time, I will attempt to read this as fast as possible.[7]

My name is Bobby Bryan, and I am a pork producer from Dillwyn, VA. I am also a member of the Executive Committee of the National Pork Producers Council, the largest commodity dues paying organization in the United States.

The council appreciates the opportunity to present its views with respect to a number of trade issues affecting U.S. pork producers. We applaud the decision of this subcommittee to hold hearings on these trade matters to ensure that our concerns will not be ignored in the development of trade legislation or, we hope, in the implementation of U.S. trade policy in general.

Our trade problems are not imaginery. From 1983 to 1985, pork imports increased by 57 percent, while U.S. pork exports decreased by 71 percent. The available 1986 statistics reflect the same trend, almost without exception. The increase in imports and the decline in exports can be traced in part to unfair trading practices of foreign countries, including export subsidies and unfair restrictions on shipments to important foreign markets.

Foreign agriculture trade practices have been addressed in the House by passage of H.R. 4800, the trade bill, in May of this year. There must be continued response to these practices by enactment of this bill as well as by the implementation of last year's farm legislation, by the development of the administration's trade policies and finally by the conduct of upcoming bilateral and multilateral trade negotiations.

Many of the concerns which I will discuss today were covered in the recent report of the Nation's Commission on Agricultural Trade and Export Policy, which we support and recommend for consideration by this subcommittee.

I now wish to address a number of trade matters which are of particular concern to the National Pork Producers Council and its members. The Food and Security Act of 1985 authorized an Export Enhancement Program for agricultural commodities, in part to counter the adverse effects of subsidies and unfair trade practices of other countries against U.S. exports.

The Council strongly supports this program. However, the program as administered by the Department of Agriculture is made subject to several restrictions which greatly undercut its value to domestic producers.

In the first place, the Enhancement Program can be used to support only those agricultural exports in excess of levels already being exported to particular countries. In addition, as administered by USDA, the Export Enhancement Program is limited to markets directly affected by subsidies and unfair trading practices of foreign countries. These restrictions must be eliminated or modified for the Export Enhancement Program to be effective.

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[7] See p. 395 for the prepared statement of Mr. Bryan.

Another trade matter which could seriously affect the domestic red meat industry is the third country directive of the European Community. This directive, which is now scheduled to go in effect on January 1, 1987, would require U.S. packing plants to meet a large number of requirements before they would be allowed to ship red meat for consumption to the EC countries.

While any country has the right to impose reasonable health and safety standards on imports, the EC directive appears to have been developed with protectionist, as much as health and safety motives, in mind.

The Committee on Agriculture must send a clear signal to the administration to take a firm stand with respect to the European Community on this issue. There are additional health and safety trade issues which are of concern to the Council.

For example, the Canadian Government currently imposes a 30-day quarantine on U.S. exports of live hogs to Canada. This unreasonable quarantine requirement effectively precludes the shipment of U.S. swine for slaughter to Canada.

As two separate section 332 studies by the International Trade Commission have demonstrated, domestic pork producers have been adversely affected by subsidized imports of swine and fresh and processed pork products from Canada and the European Community. In fact, the Canadian subsidies were so great that swine imports into this country from Canada now face a duty of $7 per head. Unfortunately, the Commission decided that hog producers and packers are not in the same industry and therefore no duties are imposed on fresh pork from Canada.

This decision reflects a total misunderstanding of the interrelationship between livestock and fresh meat. It has allowed the Canadians to slaughter the swine in Canada and ship the products to the United States in the form of fresh, chilled, and frozen pork which is not subject to countervailing duties.

The Council supports the House's efforts at foreign agricultural trade reform through H.R. 4800. Particularly, the Council approves the language of section 132 dealing with the definition of an agricultural industry. That language reflects the more realistic view that growers and processors in many circumstances can be part of the same industry.

We strongly urge the committee to ensure that this language is included in the trade bill as adopted by Congress. However, the Council points out that certain provisions of the bill may be perceived by our trading partners as protectionist measures, therefore the Council asks the committee to exercise prudence in shaping a final act.

For the past 5 years, the European Community has also increased its subsidized exports of processed and lately fresh pork into the United States. This committee should ensure that in providing authority to the administration to begin the next round of trade negotiations in 1987 is made explicit that agricultural subsidy programs of the Community must be subject to negotiations and must be reduced or eliminated through such negotiations, otherwise the Congress should refuse to approve any trade agreements which would result in the next round of multilateral trade negotiations.

Of course, the EC is not the only country which restricts U.S. exports. The Republic of Korea has simply banned imports of beef and pork to its country as a result of overproduction by its own producers. This is a country which derives benefits in excess of $1.5 billion in duty-free trade under the generalized system of preference. It cannot have it both ways. By bilateral action or multilateral negotiations, the U.S. Government must insist that Korea remove its outright ban on imports of U.S. beef and pork.

Finally, in discussing trade matters of concern to the Council, I certainly do not want to ignore the negotiations with Canada concerning a United States-Canadian free trade arrangement. We would support such negotiations insofar as they would eliminate unreasonable restrictions on trade in agricultural products between the countries.

An additional concern to us are indications that the Government of Canada would like to remove United States-Canadian trade from the purview of United States domestic trade statutes which protect domestic producers from injurious and unfairly traded imports. We would strongly oppose such a measure. We believe Congress should make it clear from the beginning that no such measures will be considered in the negotiations. The President should not be authorized to conclude these negotiations until some clear understanding is reached concerning the areas of legitimate concern to the producers of agricultural commodities of this country.

This concludes my testimony and I will be glad to try to answer any questions that you may have.

Senator BOSCHWITZ. I thank you very much, Bobby. I apologize to all witnesses for the very long delay in getting to them.

I would now like to turn to Dick Smith for whatever closing remarks he may have and observations. We spent the evening together last night. I may have to hear some of it on the run pretty quick.

STATEMENT OF RICHARD A. SMITH, GOVERNMENT RELATIONS ADVISOR, HERON, BURCHETTE, RUCKERT & ROTHWELL

Mr. SMITH. I will submit my testimony for the record.[8]

Senator BOSCHWITZ. Yes; do that. I did not have any testimony from you, Dick.

Mr. SMITH. I gave it to Dan Pearson. He has a copy. I was asked to concentrate on the horticultural products. Senator Wilson already did an outstanding job of listing what I believe are the key issues faced by the U.S. horticultural industry.

I would just make two points: First, not only does the American horticultural industry face tremendous competition in third markets from subsidies, but imports of horticultural products into this country since 1980 have gone up by 71 percent, while our exports have been going down. A good part of this problem can be attributed to subsidies and in particular processor subsidies provided by the EC.

So, the issue of negotiating reasonable rules under the GATT subsidy code is particularly important to the horticultural industry. The only other point I would make concerns removing trade barriers. It is going to be particularly important to remove barriers in the Far East in countries like Japan, Korea, and Taiwan. Take the example of, say, Hong Kong and Singapore, which are open markets and prices for horticultural products are reasonable and consumption is growing. Anyone who has gone to Japan and had to buy some orange juice or an orange or a melon realizes how high those prices are and that is stifling consumption.

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[8] See p. 400 for the prepared statement of Mr. Smith.

One of the most important goals of new trade negotiations should be to convince those three countries to open their markets in order to stimulate more consumption.

The final point I would have is that I agree with the thrust of the testimony here today, that if we are going to see progress in getting trade liberalization, the United States will have to set aside the notion that somehow through multilateral trade negotiations magic can be found.

My experience has been that when you go to negotiations, unless you have leverage you will get nowhere. You either have to have something others want and can give or are willing to take some action to force others to negotiate if you are going to get anywhere. Until we learn that lesson and go into negotiations with that kind of attitude we will see little progress.

I would like to conclude by saying one program the U.S. horticultural industry believes is working very well, and Senator Wilson and you, Mr. Chairman, can take much of the credit for its inclusion in the farm bill, is the targeted export program. Generic PIK certificates are being issued by the CCC to generate funds to carry out promotion work in countries where the United States is losing trade due to subsidized competition. Reports coming in, particularly from the canned fruit industry, who were the first ones to use this program, are enthusiastic on the success of the program. Part of this success is due to the lower dollar, but being able to carry out good hard-nosed promotion is a big help. The feeling out there now among the horticultural industry is that for the first time we have an effective tool in place that can be used to fight back against unfair trade practices and it is starting to work. This is some good news among all the doom and gloom.

We ought to continue using these programs in a forceful way to keep the pressure on the EC. I agree that CAP reform is going to come as a result of internal EC budget pressures. We ought to do everything we possibly can to make the CAP costly to the EEC.

Senator BOSCHWITZ. What did you think of the unilateral action that was suggested by Professor Paarlberg?

Mr. SMITH. I think he is right on the money. The one thing that is going to eventually cause the Europeans to become more reasonable is budget pressure. At some point they are going to be forced toward production controls to get the CAP costs under control, and when that happens I think you are going to see real dissention among the member states.

The French, who are the most efficient producers in the European Community, will have the most to lose from production controls, and will have a difficult time agreeing to major production cuts in order to make room for the recent production increases from other member states.

As long as we can keep the pressure on the EC budget, sooner or later the issue is going to have to be resolved and when they are forced to seriously address the CAP costs we will benefit.

Senator BOSCHWITZ. Well, I thank you. We have had a lot of conversations and they have been very fruitful, the one last night. Again, I apologize. Are you with Bobby?

Mr. TALKINGTON. Yes.

Senator BOSCHWITZ. I thank you all for being patient this morning. The front end of the hearing became somewhat extended.

This hearing is adjourned.

Thank you.

[Whereupon, at 12:45 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Tuesday, July 29, 1986, in room SR-332, Russell Senate Office Building.]

PREPARING FOR THE GATT: A REVIEW OF AGRICULTURAL TRADE ISSUES

To Examine the Impact of the Food Security Act of 1985 on Agricultural Trade

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TUESDAY, JULY 29, 1986

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Dixon, Heflin, Zorinsky, and Boren. Also present: Senators Melcher and Pryor.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. This hearing is to examine the impact of the farm bill of 1985 on agricultural trade, and we have quite a number of witnesses. I think that we will put some of the panels together, or we will be here until two or three in the afternoon. Let me say, that I think it is far too early to examine, or, drive to conclusion on the success, or failure, of the 1985 farm bill. These hearings I think are very timely because there is a good deal of controversy about the farm programs, agricultural exports, and so forth, and there is a feeling that perhaps in 1985, the farm bill has failed. I do not share that pessimism, and, while I am a realist, I would like to mention a few bright spots on the export picture that I think are indicators of things to come.

Export sales, those for which orders have been received but are yet to be delivered: export sales for soybean meal are 52.8 percent higher, as of July 10, than they were on July 10, a year ago. Export sales of wheat are up 26.6 percent, as of July 10, over a year ago. Rice, the comparable figures are 65.4 percent—we welcome Senator Melcher.

I was just saying, John, that I do not share all the pessimism about this bill, and I know that you have spoken out with respect to it, whether or not all of the provisions of the bill are being properly utilized, and I think that that is a very proper examination that we should make this morning, and in the other hearings that we have had. But there is some evidence that export sales are showing some resurgence, and in soybean meal, and in wheat, I pointed out that export sales, or orders yet to be delivered, are up 26.6 percent over the same time a year ago. For rice it is up 65 percent; soybean meal up 53 percent; cotton exports, just up exponentially. And coarse grain exports for the current marketing year ending August 31 are expected to be 62 million tons, and the forecast for next year is 77 million tons, which is a 24-percent increase. So that there is some reason to be optimistic.

The targeted Export Assistance Program that has provided funding for some advertising and other promotion, has caused some marked increases in such things as canned fruit. In Japan, where peach sales are up 73 percent, and fruit cocktail is up 29 percent. I do not know what those figures mean, because I am not quite sure how large the sales were. But there are signs that there is some more optimism.

I noted yesterday, on the "Morning Edition," the program entitled "Morning Edition," that there was a story that land sales in Iowa had—the prices had bottomed out and that buyers were starting to come back into the market, which is also pretty good news.

In this month's Farmer magazine, which is the principal magazine read by farmers throughout Minnesota and the Dakotas, it featured an article about younger people who are now coming into farming, restructuring their operations in some way, and looking forward with more optimism to the future.

I might say, that the farm bill has now been in effect for 7 months, and it is indeed quite a departure from legislation that has been in effect for the last 50 years, and I think it is a little early to measure success, or failure, of this farm legislation so rapidly.

The interesting thing to observe, too: I had dinner with a couple of our witnesses last night, and one of them pointed out that the farmers who are really in trouble are those who farm crops for which there is a Government program. That those who are having less trouble are those who are profitable, or those who have subjected themselves to the marketplace.

I also was impressed, recently, by the Secretary of Agriculture telling me that in the winter of 1980—after the 1980 elections—he came to Washington and became the Deputy Secretary of Agriculture, and that many of the agricultural economists got together and said, "How are we going to fill the food needs for the 1980's, because the needs are going to exceed supply? And that we simply have to plant fence row to fence row, and that the period of the 1970's is going to repeat itself: that we simply will not be able to produce enough." And 2 years later, in the winter of 1982–83, the PIK Program was devised for the purpose of ridding us of the enormous surpluses that had developed in the preceding 2 years.

It is very, very difficult, I think, to take a policy and make judgments on it too rapidly, and I think the policies in the farm bill have some sound basis, and that they will, indeed, restore export viability, and there are some things that should be done to restore it more quickly, I agree.

But I think we are on the right track and the figures with respect to cotton and rice, and wheat, and soybean meal, and other items, I think are an indication of that.

Another interesting story, too, that the Assistant Secretary for Economics, Bill Lesher, who came in at that time, in 1980, found on his desk a 150-page document which was a study commissioned by his predecessor, and the theme of that document was that the world was running out of agricultural resources, that the capacity to meet rapidly growing demand was being severely strained, and that the agricultural policy challenge of the 1980's would be to find a way to feed the world under some difficult circumstances. That we simply were not going to be able to produce enough.

And again, 2 years later, we were trying to work out a means of getting rid of the surpluses. So it really is difficult to project. I also point out that during the deliberations on the farm bill, I spoke out against set-asides, and I note now that there is a 20-percent set-aside in corn, and the corn crop is coming in at about the same size as it was last year.

Really, the difficulty we are going to have as a committee with the farm bill, is that it is going to become so horrendously expensive, and it would be my hope, that in the event we have to repair it, that we will find a way of targeting the repair, so that we direct whatever relief we do legislate to farmers who are really in need, because now the programs are kind of scattershot, and applied to just everybody, and continue to be an enormous incentive to produce more.

Somehow, we have to get away from the incentives to produce that are in the farm bill. Perhaps the best way to target will be through a credit approach, to help those farmers who find themselves extended beyond their ability to repay, and that would be a much more targeted approach than we presently have under the farm bill.

So, in any event, we look forward to our long list of witnesses this morning, and I turn to you, Senator Zorinsky, for any opening remarks.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator Zorinsky. At this time I would like unanimous consent to submit my statement for the record, and I would like to just briefly make a comment on why I feel as you do: that we have not had enough opportunity, possibly, to test the 1985 farm bill.[1]

Although the actions that have been taken thus far, with respect to increasing exports, that are available as discretionary authority to the Secretary of Agriculture, and the administration, in the 1985 farm bill, it is not very optimistic as to their utilization, the methods that we put into the farm bill to increase exports.

I think a prime example of this is the article yesterday, in the Washington Post, which focuses on the Secretary of State's comments regarding the majority leader, Senator Bob Dole's attempt to expand the Export Bonus Program to all buyers, and all customers.

For this administration to indicate, or, to even use the word "free enterprise," and "open marketplace," is sacrilegious, in the light of the fact that the Secretary of State terms Senator Dole's proposal ridiculous.

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[1] See p. 406 for the prepared statement of Senator Zorinsky.

It indicates to me, that the Secretary of State certainly is concerned, as he possibly should be, with the foreign policy of this Nation; but until there is a willingness by this administration, or any other succeeding administration, to cut the ties and divorce completely, foreign policy from agricultural economics in the international marketplace called export, in the free, open marketplace, we are never going to resolve our problem of increasing our exports.

I say this in all sadness, because it is sad where people, in the State Department, have no idea of what business is all about. In fact I would hesitate to say that they should have met payrolls with their own moneys, rather than using Federal moneys, as they are now. So they would get some idea as to what profit structure is being, and what production and supply and demand means, and all these foreign words. And to read in the newspaper yesterday, now that we are being threatened by Australia, and not only threatened—blackmailed with regard to a linkage between military bases in their country and expanding our Bonus Export Program to get customers, is ridiculous in itself.

If we are going to be held hostage around the world with respect to bases, and how foreign leaders look at us—I looked at some Thai editorials and cartoons in here, depicting the United States as the greatest rapist of economics, of agriculture, from all these other nations, while they do it to us.

I am concerned about the will of this Government of ours, to go out there and "shoot your best shot," like you do in business. This is not business we are conducting, and this is a sham, this type of a hearing, to increase exports, at a time when the people that control the exports are utilizing foreign diplomacy in shaping our export policy. You cannot have it both ways.

It really grieves me to have to take time out from people that are about to testify, but let me say this: as a businessman for 35 years, I am ingrained in free enterprise. I love to put competitors out of business. That is what it is all about, if you want to increase exports.

If it is not to the mutual benefit of Australia, or other countries, in conjunction with our Nation, to maintain bastions of freedom throughout the world, with the geographical locations of military bases, those bases should stand on their own merits, not to be used as blackmail to hold this country hostage with regard to our continually decreasing exports of grain to the rest of the world.

Thank you, Mr. Chairman.

Senator **Boschwitz**. Senator Melcher.

Senator **Melcher**. Thank you, Mr. Chairman. I understand, Senator Zorinsky, that you are not too pessimistic about the export situation of these surplus commodities.

Senator **Zorinsky**. I believe I talked about there being signs of optimism.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **Melcher**. You have to be an optimist to live where I live. In parts of Montana we have had a 3-year drought. In almost all the State there has been a 2-year drought, and in all of the State a 1-year drought.

If you gave up easily, you would not live there. But it is like a paradise out there this year: the crops are big, and grass is great, and hay is big. Everything is nice. But now we have to deal with these big crops. We warned the administration last fall when we passed the farm bill, that the key to it was exports.

If we are going to continue large production of agricultural commodities in this country, we will have to move exports. We provided a whole bunch of new tools to work with, including Export Enhancement, including section 108; including a broadened section 416, and also recommended that Public Law 480 be used more broadly.

I do not think we were heard. Senator Dole and I wrote to the President over the past month. We encouraged aggressive action, and utilization of the broad aspects of the bill, particularly the newer authorities, to move more exports. But now, as Senator Zorinsky has reported already, the "chickens are coming home to roost" on this whole debacle of losing exports.

The debate among Cabinet members, including Secretary Shultz and Secretary Lyng are appropriately taking place at the White House. But they are taking place at a belated time. The discussions they are having now should have been held last December, and if not then, surely, in January. If not then, surely in February. We find that the administration has used only one of the new export programs when it was our clear intention that all of those programs had to be used simultaneously. The one used was Export Enhancement, BICEP, Bonus PIK, or whatever you want to call it. We effectively lowered the price of wheat.

We used that program in some North African countries. What it did, of course, was lower the world price of wheat.

France met that and dropped the price to their customers, including Russia and China. Russia and China said to the United States—understandably, "You're not extending this Export Enhancement or BICEP Program to us. Until you do, you're discriminating against us."

And that is setting off, I am sure, a discussion now of the people that buy for Taiwan, South Korea, Japan, and other countries, whether we are going to extend it to them.

Australia is squawking. What they are squawking about, principally, is that they do not like to see the world price of wheat reduced by this mechanism, and they are blaming us. I have not heard them say anything about France, but they seem to be blaming the United States. We should use all of these programs in conjunction with each other, and simultaneously. We could move 10 million metric tons of wheat. Not just under the Bonus PIK Program or the Enhancement Program. We could move 10 million metric tons of wheat to meet the world needs in developing countries. But we are not doing it.

The FAO has documented a 1.7 million metric ton shortfall of wheat in sub-Saharan countries—without Nigeria. Nigeria alone could utilize 1 million metric tons of American wheat. Mexico could certainly use a million metric tons. The Philippines could use another million metric tons. Bangladesh probably needs 1½ to 2 million metric tons to meet their needs.

When you add it all up, I think we are talking about 10 million metric tons, right now, that could be obligated and committed from the United States through section 416, to these developing countries.

This would partly answer Australia's squawk. If that amount of wheat, additional wheat, is put into the hands of the people in these countries who have unmet needs for wheat, you raise the price. The rule of thumb is 5 cents for every 100 million tons. The amount I am talking about could raise the world price of wheat about 17½ cents. And that partially answers Australia's squawk since they, too, would benefit from higher prices.

I think we ought to address this. I am pleased that at least there is some discussion, now, in the White House, among Cabinet members, about what to do. If the President filled the post that we set in the bill of Special Adviser to the President on Agricultural Trade and Food Assistance maybe they would have a policy. Maybe they would have had a policy in effect last winter, and not have to go through this exercise right now at a highly critical time.

All this, of course, costs a great amount of money. The lower the world price of wheat goes, the greater the costs are to the Government. It is real money. It is not only for the program costs for deficiency payments; it is also storage costs, which I understand are estimated by ASCS at upward of $1 billion, and perhaps as much as $2 billion for this coming fiscal year.

Mr. Chairman, I think it is a sad situation. It is one that has evolved from lack of attention, and a lack of utilizing the various parts of the export title of the farm bill. The administration has been concentrating on other things when it should have put part of their concentration and their attention on exports of these commodities. Thank you.

Senator BOSCHWITZ. Senator Heflin.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Mr. Chairman, I have a prepared statement which I would like to enter into the record, and in addition to that, I would like to make a few brief remarks.[2]

It seems to me, that the inquiry here pertaining to exports and what needs to be done for the future, really gets down to the fact that we are going over some old efforts. Agricultural export policy gets vetoed by the State Department. Or else it gets changed by the State Department.

I would like to make a suggestion to the committee members based on the relevancy of what Senator Zorinsky has said, and the relevancy of action on the part of the majority leader, Senator Dole: That Secretary Shultz be brought to this committee to testify.

I do not think, as far as I know, since I have been here, we have not had a Secretary of State to come before the Agriculture Committee to testify. I think it is time that there be some type of recognition by the State Department of agricultural policies, the importance of them, and, I believe this is the only way we are going to get their attention.

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[2] See p. 407 for the prepared statement of Senator Heflin.

We make the Secretary of Agriculture do their best in these areas, and then they get so many policies vetoed, or they get their "thumbs down" on various things. It just seems to me that now is the time to get the attention of the State Department. There are so many related issues that are connected with the hearings that you are conducting right now. It seems to me that this would be a very important move.

Now, while I am talking about hearings, I would like to draw attention to another matter. We in the Southeast are experiencing a terrible drought. There have been several articles that have appeared recently about weather conditions, jet streams, prevailing winds, the low pressure areas and the high pressure areas, and so forth. Some of these articles contain predictions that you sometimes run a 22-year cycle. I think it would be appropriate for the Agriculture Committee to hold hearings with some experts on the long-range aspects of whether certain sections of the country which have not experienced droughts, will be experiencing them much more frequently, and perhaps even a 22-year period, as has been mentioned. I think we need to get expert testimony, with the idea of laying a background for possible legislation to deal with this matter.

Now we have dealt with matters in the West, in arid areas, where there has been lack of moisture. But, if we are going to be faced with some long-term drought in the South, I think that it is something that we need to look into and address.

And so I would like to make the suggestion, No. 1, that the Secretary of State be required to come before the Agriculture Committee and testify pertaining to pertinent issues now, that are contemporary, and long range, and the relationship of agricultural export policies and the State Department, and the method by which the interests of agriculture ought to prevail.

No. 2, we need to address the drought in the Southeast.

Just like in a drought in other countries, we take care of people in Ethiopia, as we should do; in Bangladesh and other places. But I think it is time we take care of our own also. And so I would like to make those suggestions.

Senator BOSCHWITZ. Well, I thank you, Senator, and that is a constructive suggestion. We complain a good deal about the State Department, and perhaps it would be very timely to ask them to come and testify—the Secretary of State has been quite outspoken in recent days. I see again in the morning paper that he has, once again, as Senator Zorinsky pointed out, that it was ridiculous to include the Soviet Union in "all customers." It is a good suggestion.

We are going to call our first witness, Thomas Kay, the Administrator of the FAS, and ask also that Don Paarlberg and Martin Abel also come up, and we will treat them as a panel. And inasmuch as we have 11 witnesses, we are going to ask, and I would ask the timekeeper to keep time, that we have a 10-minute limitation on your presentations. We will apply that to all the witnesses.

I see that we are losing some of the members who have to go to other hearings, and if there is just going to be the two of us, perhaps we do not have to limit time for questions.

But if we give each one of the witnesses 10 minutes, we will be out of here by sometime after noon, and so we will try to discipline ourselves in the questions. Why don't you proceed, Mr. Kay, and then Dr. Paarlberg, and then Mr. Abel.

Mr. KAY. Thank you, Mr. Chairman.

Senator BOSCHWITZ. You do not have a prepared——

Mr. KAY. Yes; I do.

Senator BOSCHWITZ. Do we have a copy of that? Thanks.

Mr. KAY. I was going to say to the good Senator Heflin that after the warm reception this morning for the administration, that I would be glad to defer to Secretary Shultz, if we could get him up here right away, but, nevertheless, it is my pleasure to be back here and to visit my friends in the Senate again.

We have submitted our statement, Mr. Chairman, and along with that, I would like to make a part of the record a paper which we have done at the Foreign Agricultural Service, outlining everything we have done to implement the export section of the farm bill, up to date. And if you could make that a part of the record I would appreciate it very much.[3]

Senator BOSCHWITZ. We will do that.

STATEMENT OF THOMAS KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. KAY. Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss with you the administration's efforts to implement the Food Security Act export provisions and the impact of those programs on world agricultural trade. The lower loan rates in the Food Security Act and the new and expanded programs brought about by that legislation will make agricultural products more competitive as their impacts begin to be felt in the marketplace.

Potential buyers now are holding back on their purchases, waiting for new crop prices to go into effect. The situation is further clouded by the continued speculation about possible changes in the farm program.

In the short run, it is extremely difficult to make significant changes in the world trade environment, but we expect that the new farm program will bring about positive changes for U.S. farmers in terms of future sales.

To ensure that this happens, we are working diligently to carry out a wide range of programs designed to meet subsidized competition, develop new markets, and provide food assistance to deficit countries.

When fully in place, these programs will provide approximately 8 billion dollars' worth of Government assistance to boost farm sales overseas, nearly a third of the projected value of U.S. agricultural exports in fiscal year 1986.

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[3] See p. 410 for the prepared statement of Mr. Kay with accompanying paper on agricultural exports.

A number of provisions in the Food Security Act were clearly designed to address major trade policy issues which the United States has with its trading partners, especially the European Community.

Under the Export Enhancement Program, we are using CCC-owned commodities as export bonuses to make U.S. commodities more competitive in the world market, and to offset the adverse effects of unfair trade practices.

We expect that most of the initiatives announced to date will be utilized this year. That means that we will have used $500 million for this program, or half of the total amount that Congress instructed us to use over the period of 3 years the program is authorized.

Since the Export Enhancement Program was initiated, close to 12 million tons of commodities have been designated for specific countries.

This represents close to a tenth of the projected volume of all U.S. agricultural exports in fiscal 1986, including almost a third of the projected level of U.S. wheat sales.

The program has allowed U.S. grain exports to replace European Community sales in key markets, particularly in North Africa and the Middle East.

Under the new Targeted Export Assistance Program, we are working to help U.S. exporters counter the effects of unfair trade practices by foreign competitors or importers. More than $60 million has already been allocated to U.S. producers to promote wood, peaches, and fruit cocktail, potatoes, walnuts, raisins, wine, prunes, citrus, dried beans, grapes, wheat, Washington apples, poultry, and eggs in markets around the world.

A number of other proposals are pending, and we plan to use the full $100 million allocated for targeted export assistance this year. We have had reports from the industry that some of the first programs approved already are reaping benefits in increased exports.

We also have been working aggressively to ensure that the credit needs of potential buyers are met. The value of credit guarantees authorized to date for this year under the Export Credit Guarantee Program represents 14 percent of the projected value of U.S agricultural exports in 1986. The share is higher for U.S. grains—52 percent for rice, 37 percent for wheat, and 16 percent for feed grains.

We are now implementing the new Intermediate Export Credit Guarantee Program with 3- to 10-year payment guarantees. FAS has worked closely with the U.S. financial community and with prospective clients to develop rules to implement and administer this program.

Last week, on the day our regulations were finalized and announced, we had a sales team in Mexico to explain the program and encourage its use. We are now working with over 20 countries to promote dairy cattle exports, with guarantees for 175 million dollars' worth of intermediate credit for the dairy cattle exports. Several new export initiatives are tied to the implementation of the Milk Production Termination Program.

USDA was directed to purchase 200 million pounds of red meat for export during the 18-month program. We have already sold close to that amount to Brazil and we are working to provide meat to the Department of Defense for use overseas and to sell beef to the European Community, filling out quota.

We are working to implement a new Dairy Export Incentive Program and we have been selling CCC-owned dairy products overseas, as required by the act.

We have sold over 127,000 tons of nonfat dry milk and butteroil to Brazil, Mexico, Austria, and Israel this fiscal year. The act also added new incentives to one of our oldest export assistance programs, Public Law 480.

We are launching our local currency initiative under Public Law 480 to generate economic growth via the private sector in recipient countries. To achieve this goal, sales of U.S. farm products for local currency have been reinstated.

These local currencies, which will be owned by the U.S. Government, will be used by the private sector in title I countries. Procedures for this new program are being developed, and it should be underway by the end of this fiscal year.

Another new effort called Food for Progress will program at least 60,000 tons of commodities this fiscal year to needy countries, mainly in Africa, to encourage agricultural reform. This will be in section 416 commodities.

We have also expanded the list of section 416 commodities to meet the established annual availability levels of 500,000 tons of grains and oilseeds, and 150,000 tons of dairy products. The new program, in combination with our other on-going market development, market information and trade policy work, are being administered aggressively in order to help put U.S. farm exports back on the right track.

One of the most important aspects of the legislation, in terms of export sales, will be its impact on commodity prices. With the reductions in U.S. price support levels and the current excess of commodity stocks around the globe, world prices will decline along with the support levels, likely by 25 percent or more. This should encourage imports by many countries.

Lower commodity prices also will curtail the incentive to expand production by many of our export competitors. By increasing U.S. competitiveness, the U.S. share of world trade should increase. Our economists predict that the United States is likely to gain most of the gradual increase in world agricultural trade in the rest of the decade. Even though we will not see the full effects of the Food Security Act until the new prices actually take effect this fall, the act has already evoked strong reactions from other nations. Clearly, we have their attention.

Much of that attention is focusing on what we hope is a short-run situation—the sharp reduction in market prices, compensated by heavy domestic payments, and supported by aggressive export programs.

Many countries view these policies, as you know, just as predatory as those we have criticized in others. The first responses from other major agricultural producers indicated that they would stand firm and fight, at any cost. It now appears that our competitors are reevaluating their positions.

Around the world, production policies are changing, farmers are changing their production mix, and markets are being redefined.

Our competitors are vocally criticizing our pricing policies. Their reactions show a definite realization that the United States is serious in its efforts to regain its share of the export market.

Canadian farmers have increased their planted wheat acreage to counter lower prices. The EC is reviewing its Common Agricultural Policy, but has also increased its subsidies. Australia has loudly complained about the act and is moving aggressively to keep its markets. Argentina has moved to support grain farmers' income levels with several relief measures, and also has cut its prices to stay below ours.

Thailand is attacking what it calls the protectionist policies of the United States. Brazil is focusing on producing food grains for its domestic market as well as trying to maintain soybean production for exports to generate hard currency.

These countries are not accustomed to tough U.S. competition. They fear that our more aggressive posture will at the very least prove expensive for them, if not cost them markets altogether.

Implementation of the Food Security Act has also contributed to an increased interest in trade negotiation. As a result of U.S. determination to be aggressive and to return to market-oriented policies, we are entering the new round of negotiations with more reason to be optimistic than ever before.

Under Secretary Amstutz will be meeting with the full committee next week to discuss our goals for the new round. That concludes my statement, Mr. Chairman. I will be happy to answer any questions you have.

Senator BOSCHWITZ. We will turn to Dr. Paarlberg. Pardon me. I see that Senator Dixon has joined us. Senator, would you like to make an opening statement, or submit anything for the record?

Senator DIXON. Mr. Chairman, I have a statement that I would appreciate your putting in the record,[4] and I regret to advise we have a markup in Banking, so I will not be able to stay very long.

Senator BOSCHWITZ. Well, we appreciate your coming and hope you can stay as long as possible.

Dr. Paarlberg.

STATEMENT OF DR. DON PAARLBERG, PROFESSOR EMERITUS, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

Dr. PAARLBERG. Chairman Boschwitz, and members of the committee, it is a pleasure to be here again, in this familiar hearing room, where I have had many happy experiences, and some not so happy. I hope that this is more like the former than like the latter.

I note that I am sitting in the chair of Senator Lugar, whose constituent I am, and this is an honor for me.

I have a statement, which I will brief rather than read.[5] As you have heard, the Food Security Act of 1985 lowered the loan rates for the major export crops, and gave authority to the Secretary to reduce them further, which he did.

The hope, and the expectation was, that this would result, quickly, in an increase in our agricultural exports. That has not proved to be the case, as you have also heard.

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[4] See p. 407 for the prepared statement of Senator Dixon.

[5] See p. 429 for the prepared statement of Mr. Paarlberg.

The reasons for this disappointing performance, I think, are several. One is, as Tom Kay has indicated, that the buyers anticipated lower prices and are waiting for them to become effective.

It is a little as if General Motors announced that the price for the new model in the fall would be $2,000 less than the present model, and buyers would wait with their purchases. And that is in effect what has occurred.

There is evidence, that with the passage of some time, that these temporary difficulties will be overcome. You have yourself made reference to that, and I agree with it. We are the major exporters, and we have been in effect making the price for these big export crops. And when we lower the price, as we do, the rival exporters follow our price down, and we do not achieve the immediate benefits that we had anticipated.

The world is awash with grain, in part as a result, I think, of the expansion in agricultural production around the world, that resulted from, and was accompanied by the food scare of the 1970's. It takes a while for these efforts to expand production to occur.

We also are experiencing the adverse consequences of high support levels in Europe, with the Common Agricultural Policy, and the incentive prices that have been held out to our own farmers.

The current poor performance in the export market is, I think, neither a test of the new farm bill, nor an indictment of our agricultural efficiency. We have very fine agricultural resources, and if we are given an opportunity to compete in the market, we can, with our major export crops, in my opinion, meet competition from anywhere in the world.

There has been great controversy, probably no greater controversy, economically, with regard to the 1985 farm bill, than the question of what is the effect of price on export performance. The Department of Agriculture has pulled together all the available studies on this subject, and has published on it, and the gist of their examination is, that in the short run—that is, less than a year—a drop of 10 percent in the price of an export product would result in less than a 10-percent increase in the volume of exports. So, that gross revenue, in the short run, would be reduced by a reduction in the level of price. In the long run, in contrast—long run being a year or more—a drop of 10 percent in the price would result in more than a 10-percent increase in volume, so that the effect would be to increase net revenue.

The difference between the short run and the long run is that it takes a while for the importing country to adjust its food system to the new price.

In the long run, the most vivid example I can cite, of the effect of price on production, and export, is with regard to cotton. If you go back in the period before price support and production controls, the late 1920's, and the early 1930's, we produced in this country about 14 million bales of cotton.

Presently, we produce less than that, 13 million bales. The rest of the world, 50 years ago, produced—the rest of the world combined produced less cotton than we did. Now they produce five times as much. We exported, before these programs were put in place, about 7 million bales. This year our exports are 2 million. Before these programs began, the rest of the world exported about 5 million bales. This year, they will export about 18 million bales. I know of no more vivid illustration of how the seeming advantages of a high support policy, turn out to be authentic, long-run disadvantages.

We hear complaints, and Tom Kay has referred to these, of other countries, about our new pricing policies, and this is understandable.

For all these years, we have held a price umbrella for them. We have supported the price. We have reduced the production. We have carried the stocks. We have paid the cost.

They have tailgated us. Now that word, perhaps is more understandable to somebody from Indiana than to other people. It is a word that comes out of the 500-mile race at Indianapolis. What happens oftentimes is that a racer will get behind the leader, and the leader breaks the wind, and the tailgater gets pulled along by the suction of that advance car, saves his fuel, and then when the leader gets worn out, runs low on fuel, he goes around him and wins the race. That is tailgating, and that is what the other countries of the world have been doing to us for all these years.

And now that is coming to an end, and they are disheartened by it. They have come to think of tailgating on us as an entitlement. Now that we should protect our agricultural exports from unfair competition is entirely clear, and I am happy to see that we are doing this. I think that the most effective way to protect our interest is the course that the Congress has taken, to reduce the level of price supports, and to lower the price umbrella that we have held for these people.

This is likely to prove immensely costly to the Common Agricultural Policy because it will increase, greatly, the cost of their export restitutions. And I think it will be more effective than jawboning, or trade wars, or negotiations, or the other things that we are doing.

These comments about the Food Security Act of 1985. It takes the right direction in lowering prices of export crops for which the Congress is to be commended. But by holding the target prices high, it is likely to be exceedingly expensive, probably breaking the 3-year congressionally imposed spending resolution limit of $35 billion. Possible actions related to Gramm-Rudman-Hollings pose additional latent spending limitations.

There are two possible courses that the Congress might take if the costs prove to be excessive. One is to reverse course, to adopt strict mandatory production controls while continuing to support prices at high levels or even increasing them. Effective production control would be very difficult to achieve if price objectives were held high. Such action would again raise the umbrella for other exporters and would concede market growth to our rivals. For the commodities concerned, it would be a slow form of suicide.

The other alternative, if the program is considered excessively costly, is to redirect the benefits. Only about one-third of every dollar in deficiency payments goes to financially stressed farmers, financially stressed farmers being those who have debt-to-asset ratios of 40 percent, or higher. Fifteen percent of the benefits go to farmers with net worth in excess of a million dollars. None of the benefits go to those farmers who produce the products that are not involved in these commodity programs: the cattle, the hogs, the poultry, the specialty crops, the fruit, the vegetables. As a matter of fact, the producers of some of these products, notably the cattle producers, are injured by the programs for the protected crops.

Most of the lobbyists that speak with you propagate two myths. One is that all of agriculture is in deep trouble, and the other is that the commodity legislation will help all these farmers. Both of these myths are false.

If the cost of the program proves excessive, the deficiency payments could be reduced. The saved money could be used to reduce the deficit. Some of it could be used to help renegotiate and restructure the excessive debt on our troubled farms. By thus redirecting benefits, the Congress could achieve three worthy purposes. First, the farmers who are really in trouble could be helped. Second, the runaway costs could be restrained. And third, the constructive new direction the Congress has taken in reducing loan levels could be maintained, and incentives for excess production would be reduced.

The Food Security Act of 1985 moved us in the right direction so far as loan levels are concerned. Poor current export performance and high program costs should not be allowed to move us away from that proper course.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Well, you had that timed right down to a "t". Dr. Abel you are next.

STATEMENT OF DR. MARTIN ABEL, PRESIDENT, ABEL, DAFT & EARLEY

Dr. ABEL. Mr. Chairman, members of the committee, it is a pleasure to be here today to address this important question.[6] The Food Security Act of 1985, as has been mentioned, placed major emphasis on expanding U.S. agricultural exports by providing authorities to improve the competitive position of the United States in world markets and to increase world agricultural trade.

Aggressive use by the administration of authorities to lower loan rates, together with a major decline in the value of the dollar, have made the United States much more competitive. It will take time, as Secretary Lyng has stated, for improved competitiveness to increase U.S. exports and for the United States to regain fair shares of world markets.

Exporting and importing countries respond slowly to lower prices, and some not at all because they are insulated from the world market.

In my opinion, what is required is a steady course on price competitiveness, one which the administration has followed to date. Lowering prices even further will not increase exports much in the short run, as Dr. Paarlberg has said, and will be very costly.

For example, USDA, as reported by the press, estimates that the market payback loans for wheat, feed grains, and soybeans would cost the Government, over a 2-year period, $7 to $5 dollars for each additional bushel exported. Now this is two to three times what it would cost to give these commodities away.

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[6] See p. 433 for the prepared statement of Dr. Abel.

But regaining a fair share of a stagnant world market, however, will only go a small way toward eliminating U.S. surplus production capacity. Let me give you two examples.

If we were suddenly, in 1986–87, to regain a 42-percent share of the world wheat market, our wheat exports would increase to 1.4 billion bushels. Total utilization would be slightly over 2.4 billion bushels. Yet, we have the capacity to produce 3 billion bushels of wheat in the United States.

In the case of feed grains, a more normal share of a projected 87-million-ton market for the coming year would result in corn exports of 1.8 billion, much better than what we are going to get this year, and total disappearance of 7.2 billion. Yet we, in the United States, have the capacity to produce 9 billion bushels of corn a year.

Strong emphasis needs to be placed on expanding world trade. The Food Security Act provides a range of authorities for using agricultural commodities to strengthen economic development and market development, especially in the developing countries where the future growth potential lies.

These authorities include P.L. 480, 416, short- and intermediate-term credit, export assistant in kind, and the appointment of a Special Assistant to the President to coordinate food aid and trade activities.

The primary focus of market development activities should be to treat each country as an individual market, and to provide packages of assistance that fit the needs of each country and effectively contribute to economic growth and market development. I am not talking about dumping commodities into countries or in the world market, but focusing on changes in policies within developing countries that are needed to get them moving, and figure out ways to use our agricultural sources to help build markets for the future, something that we have done successfully in the past.

The Food-for-Progress provision of Public Law 480, which was designed to assist countries who adopt market and private sector oriented policies, has been little used, with only two countries in Africa being targeted so far. The Intermediate Credit Program, important to middle-income countries has been used, to date, sparingly. The donation program has been moving at a slow pace and the Special Assistant to the President, a key position to coordinate a complex decision process, has not been appointed even though the act required that person to have been appointed by May 1.

Now, I am glad to hear from Tom Kay that the pace of these activities is picking up, and I hope that they pick up exponentially, because I think this is where we can use our food resources imaginatively and effectively. But right now, we are off to a slow start. Expanding world trade, and of course getting our fair share of that growing world trade, is the ultimate solution to our excess production capacity problem.

We are going to be in for tough times if all we are going to do is fight over a stagnant world market.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Before I begin the questioning, Senator Dixon, you said you had other obligations. If you, Senator Melcher, have no objections——

Senator **Melcher**. Fine.

Senator **Boschwitz** [continuing]. I would yield to you, so that you could begin the questioning.

Senator **Dixon**. Well, I was very interested, in particular, about the statement you just made, Dr. Abel, about the fact that even if we employed everything available to expand our foreign marketplace, it would still not be adequate to take care of the potential productivity of the American farmer. Isn't that essentially what you just testified to here?

Dr. **Abel**. That is right.

Senator **Dixon**. I know in my own State, we are going to have a bumper crop this fall, in Illinois. The evidence is we will have about 120 million bushels of surplus corn, that there is no storage space for at the present time.

I was a cosponsor with Senator Dole, and I believe my distinguished colleague from Montana, and others, of the expansion of the Export Enhancement Program, which would encourage commercial sales to the Soviet Union, the People's Republic of China, and others. I perceive this is now in some degree of debate within the administration.

And some of us have also thought that the marketing loan strategy which they are already using for rice, concededly, would be very expensive for feed grains. However, it might be a thing to look at. Are you saying, if we did all of those things, combined with everything else we are already doing, that the foreign marketplace, still, would not answer all of the problems we have with respect to disposing of the potentiality of productivity on the American farm?

Dr. **Abel**. Yes. I am saying that.

Senator **Dixon**. What is the solution, then?

Dr. **Abel**. Market share is important. What I am also saying is that getting back a fair share, or a fair plus share of the world market, will not absorb, by any means, all the capacity of this country to produce food and fiber.

Senator **Dixon**. Would that also be true, even if we went to a strategy that some in the administration would advocate, of selling at whatever the price would be on the open market, in the world market? Even then, would we not dispose of all of our potential productivity in this country?

Dr. **Abel**. Well, I suppose if you set a price low enough, and possibly zero, and were willing to bear the cost, you could get rid of a lot more.

But it does not deal with the fundamental problem that world grain trade, and world agricultural trade has been declining in the last several years. The thing that we, as a nation, and others as well have to focus on is how to get world trade growing again. Fighting over a stagnant or declining market is going to be very, very painful. It is going to be very frustrating. And the answer for the U.S. agriculture, which is an efficient production machine, and has probably the most efficient delivery system in the world, is to devote our energies to get world trade growing and then to fight for our fair share of a growing market. And that is a long-term proposition, Senator.

Senator DIXON. Yes, and of course I am not quarreling with you. I am just trying to be understanding of the testimony. Is this a shared view of all of you?

Dr. PAARLBERG. Yes.

Mr. KAY. Yes.

Senator DIXON. It is interesting, in hearing that view, to understand it at the basic level of testimony, by experts saying—if I perceive this accurately—that no matter what we do, really, there is not enough marketplace out there to take care of our potentiality for productivity in this country.

I mean, whatever has happened with the embargoes in the past—our distinguished chairman has done a lot with respect to hearings on that, I have attended them, and they were interesting—but the fact is, other countries are in the world market now. They are increasing production, they are becoming strong competitors, and unless we fight in the marketplace, our share is not going to be adequate to take care of the problem. That, alone, will not solve the problem. But none of you, I do not think, advocates the alternative solution by my distinguished friend from Iowa, who is not here today, that we sharply reduce productivity and have mandatory set-asides, and so forth. The idea is to elevate the price, let the farmer vote for the price he wants for his commodity, and do it that way, and just sell it all, internally, in the United States, and reduce the productivity.

You are not advocating that either.

Dr. ABEL. No.

Dr. PAARLBERG. No.

Mr. KAY. No.

Senator DIXON. What is the solution?

Dr. ABEL. The solution is to go back to the experience of the 1950's and the 1960's, when we had somewhat of a similar problem, follow a steady course, recognize that, for some time, we are going to have to put some restraints on our production, but that should be an interim measure, and focus on building foreign demand for our agricultural products.

And that may take 10 to 15 years, before we can fully use our agricultural capacity. I do not know how long it is actually going to take. Maybe it will take a shorter period of time.

Senator DIXON. It is probably a mix of a number of things?

Dr. ABEL. That is right.

Senator DIXON. Maybe some set-asides to reduce productivity some, you are saying. Try to expand the foreign marketplace as much as we can, you are saying.

Some of us are very interested in looking for new uses for our grain. We put some money in an appropriation bill on the House side for a new agricultural laboratory in Peoria, the county of our distinguished minority leader on the House side, Congressman Bob Michel, to find new ways to find new commercial uses for agricultural commodities.

There is a lot of opportunity in that, isn't there? You know, ethanol and all the other things. All of those things are solutions.

But the fact is that what you are saying is, there probably is not one single solution to this problem all at once, is there? It takes a lot of different things.

Dr. **Abel**. There is no miracle that I know of that is going to turn things around, quickly.

Senator **Melcher**. Would the Senator yield.

Senator **Dixon**. I would be delighted and I thank the Chair for permitting me to go ahead of my distinguished senior colleague from Montana.

Senator **Melcher**. Dr. Abel, you projected, though, a 9-billion bushel crop of corn as being within our potential, and a 3-billion bushel crop of wheat as being within our potential. We have a bumper crop of wheat in Montana. There will be a bumper crop of corn in Illinois. Yet, in neither commodity are we going to approach those levels of potential production that you mentioned. In reality we would have to think about it in terms of what we have imposed upon ourselves in terms of holdback in potential production. Is that not correct?

Dr. **Abel**. Well, yes, but Senator, we were just a shade away from the 9-billion-bushel corn crop last year, and had 10 percent of the acres idle. And we have produced over a 2.8-billion-bushel wheat crop with all the land in production and yields have increased since then.

So I think if we went full out in production and used all our land, these potentials are very real.

Senator **Melcher**. Thank you.

Senator **Dixon**. I thank my friend from Montana.

Senator **Boschwitz**. Dr. Abel did talk about potential, and the ability to sell those potentials, and, before the Senator from Illinois leaves, then do I interpret your testimony properly, all of the witnesses, that you would hold the 1985 farm bill, you would hold that cost steady and try to utilize some of the provisions with respect to exports, more fully than they have been? Some of them, they have just, really, particularly in the Intermediate Credit Program, I believe, just have completed the regulations. But your assessment, your short assessment of the 1985 farm bill, is it a course that we should continue to follow at the present time? I would direct it first to Dr. Paarlberg and then Dr. Abel.

Dr. **Paarlberg**. In two respects I think it is appropriate. I think that the lower loan levels are appropriate, and that the special export programs are appropriate. I think, however, that the target levels are too high; that they have two deficiencies.

One is that they make the program extremely costly, and another is that they provide inducement for excessive production. Some people think that farmers, in deciding what to produce, look just at the market price, which will now be lower, but they do not do that. They look at the market price, plus the deficiency payment which is based on the target price, and the target prices are not really reduced, near term, for these programs. So we are continuing, on the one hand, to tell these farmers to produce with a target price, and on the other hand, with the acreage reduction program, we are telling them not to produce.

It is like two men with a joint banking account bidding against one another at an auction, and that ought to be changed.

Senator **Dixon**. Can I ask one more question, Mr. Chairman. I hate to interrupt.

Senator **Boschwitz**. Sure.

Senator DIXON. One thing I have had on my mind for a long time and I would like to ask some gentlemen like you. I am concluding my first term in the Senate, having served almost 6 years on this committee. I have learned a good deal here and appreciate hearing so much from experts like the chairman and my distinguished colleague from Montana.

One of the things that has always bothered me is how those of us who would like to expand our agricultural marketplace in so many ways, find competition from the State Department all the time.

Now the other day, I was delighted to support Senator Dole, as did my colleague from Montana, in expanding the Export Enhancement Program, so that we could sell to the Soviet Union and the People's Republic of China, potentially big customers for our agricultural products.

Now I see the prime minister of Australia is shocked and outraged by what we have done in trying to sell more of our grain, and he has reached the ear of the Secretary of State.

I respect Secretary Shultz, but he is the advocate of the Australian point of view on this. A couple years ago, in this committee, we were all concerned about the dairy surplus, and we toiled with it for months. Finally, we decided to sell some on the foreign market. Everybody voted for it here.

Now you know what happened to me the next day? My secretary came in and said, "The ambassador from New Zealand wants to see you." I said, "I don't know the ambassador from New Zealand." He came in and said, "You're destroying my country. You're going to sell dairy products. That's all we sell in the world market." I said, "Well, I'm a Senator from Illinois and I'm trying to do something for Illinois farmers."

But the administration never did sell it on the foreign market and, what a great friend New Zealand was. The next time we had a nuclear ship there, they would not let it in their harbor.

The only point I want to make about that is: when is there going to be some understanding of the needs of the American farmer, from the standpoint of the testimony of experts like yourself, and not so much concern from the standpoint of our so-called allies, and their concerns?

You know, they do not worry about us when they want to go out and sell some products. Why is that such a problem for us all the time?

Dr. PAARLBERG. Well, it is a problem, certainly, and I can see the fact—and it is a fact—that our exports are a matter of concern to farm people, and that they are also a matter of concern to the larger interests of the entire country through diplomatic concerns, and that the Secretary of State, therefore, should have some role in the determination of these policies. I think the important thing is that agriculture not get run over, not get ignored in these processes. I would like to cite one experience, in my own case. More than 30 years ago, you passed Public Law 480, and that had farm support, and the first reaction of the State Department was opposed to it.

They feared that Public Law 480 would put farm products into the market in competition with the Canadians and the Australians and others, and that this would be injurious to the diplomatic interests of the United States. Luckily, the farm people hung in there and protected the act that they had passed, and, in time, the State Department learned that this act can be useful in supporting the diplomatic interests of the United States.

And they became supporters of it, maybe not with the wholehearted enthusiasm that farm people felt, but there was an educational experience that took place there, and I think the farm people have to hang in there and see that their case is adequately made, not ignoring the fact that there is another case.

Senator DIXON. Well, yes, I know they have to "hang in" there, but now you are talking about that kind of thing again. A couple of years ago, the importation of Canadian hogs more than quadrupled into this country. My State is a hog producer. Illinois produces corn, beans, and hogs. They had a $9 a head subsidy on hogs in Canada and they were flooding this country with them. Nobody said anything was bad about that until this committee, and the Senate, finally passed a resolution against it. The administration finally did something. But now, now the Canadians are suing us over our support efforts with respect to corn and are saying we are subsidizing corn.

You know, I do not understand why every other country is more aggressive in agricultural trade matters. I do not mean this in a partisan way, because I think it has been true of other administrations, Mr. Chairman, not just this one.

Every other country is more aggressive in support of their farmers in the foreign marketplace, in my view, than our own country is in respect to these problems.

Dr. PAARLBERG. Well, we have some aggressive actions of our—that we should not ignore. We are not without blemish when it comes to using muscle, using the power of the Treasury in the export market.

But I agree with you, totally, that there should be some equivalence of advocacy and support of farm people, for the United States, and other countries.

We have on the books opportunity to impose countervailing duties when some other country engages in unfair trade practices, and we have used that, I think, rather sparingly, on the whole, over time, and I think we might be more aggressive in the use of that provision.

Senator DIXON. I am for that. I want to thank you all. Thank you, Mr. Chairman.

Senator BOSCHWITZ. I would like to ask you, since you brought up, Senator, the idea of a market loan, and what your attitude—and we did not—Dr. Abel, you did not respond to the question about whether or not we should—I think you said that we should hold a steady course for the 1985 farm bill. We should not introduce major, additional reforms at this time. Is that correct?

Senator DIXON. May I interrupt, though, to say, Mr. Chairman, I have observed that it has worked well for rice. I can see that it would be terribly expensive for corn. I am not arguing that——

Senator BOSCHWITZ. I understand.

Senator DIXON. I understand the cost.

Senator BOSCHWITZ. Have you got another minute? I want to make a point about marketing loans.

Senator DIXON. Sure.

Senator BOSCHWITZ. But have I reflected the——

Dr. ABEL. I think with respect to the loan rate question, the authority, and the use of the authority, and the use of the export title of the farm bill, we should stay the course. I think there are other problems, as Dr. Paarlberg has mentioned, that are going to have to be faced up to when I read in the New York Times this past Sunday of what the payments for rice and cotton are going to look like for a few farms, I think that——

Senator BOSCHWITZ. We will discuss together the marketing loan.

Senator DIXON. This is more fun, but I have to go to a mark-up, Mr. Chairman.

Senator BOSCHWITZ. Yes, OK.

Dr. ABEL. That issue will, you know not go unnoticed. But I do think with respect to being price competitive and setting our loan rates, and with respect to the export title, we should stay the course, and as I suggested, be more aggressive in using the export title.

I would like to make one point about how it is easy to fall in a trap—mention of the market payback loan, and other things. For years, we have criticized the European Community for using export subsidies. The United States is now in the business of doing what we have accused the European Community of doing.

There is a much cleaner way to do it, and let's get the loan rate down to appropriate levels, so that it is a safety net which was intended by the law, and not get involved with export subsidies, because when we get to the GATT, their finger is going to be pointed at the United States on that issue.

Senator BOSCHWITZ. One final question, and then we will turn to Senator Melcher and then move to the next witnesses. But what do you think of the marketing loan, and applying that to other corn and wheat?

Dr. ABEL. I think it is unnecessarily expensive, and, as I said before, in the short run, we are not going to buy ourselves more. As Dr. Paarlberg says, in the short run, our competitors follow us down. I think our prices are basically competitive. They are going to be lowered again. The loan rates are going to be lowered again for the 1987 crop. That has been announced for wheat.

That is the approach that I would favor. Stay within the context of the authorities concerning the loan rates and stay away from market subsidies.

Dr. PAARLBERG. I agree with Dr. Abel.

Mr. KAY. Could I make a comment on that, Senator.

Senator BOSCHWITZ. Yes.

Mr. KAY. The farm bill, the 1985 farm bill was signed into law in December, and then was amended the first of the year with the improvements act. After that, loans for rice went into effect. The cotton provisions went into effect on August 1, or will go into effect August 1. The wheat loan rate went in effect June 1. The corn loan rate does not go into effect until September.

And, I think it is important that we go through a production cycle to see exactly what is going to happen here. As you pointed out in your opening remarks, the trend lines are up, and I believe that the proof of the pie is in the eating thereof, and I believe we should have an opportunity to let this work and I believe it is going to work, Senator, and I think we should stay the course.

Senator BOSCHWITZ. Senator Melcher, we have kind of held more of a conversation than a series of questions. Do you have additional questions for this panel?

Senator MELCHER. Yes, I do, Mr. Chairman. The first two witnesses have emphasized we have to get into the full effect. But we do not have that much time to get into the full effect, as you both describe it. In any case the price of wheat was reduced.

We do set the world price for wheat, do we not?

Mr. KAY. Well, that is debatable, Senator, but usually, our price is a determining factor, insofar as the world price, but other exporting countries who subsidize also have an input into what the world price of wheat might be.

Senator MELCHER. Of course, the world price is where the sales occur. But if France, for example, reduces its sale price $16 a metric ton to make those sales we could say they set the world price. But was that not a reaction to our Export Enhancement sales which are about $15 below what we would like to say the world price is?

Mr. KAY. They have increased their restitution payments and followed us down as we have set our price in the Export Enhancement Program now.

Senator MELCHER. Yes. That's my point. They truly followed us down, so we pretty well set the world price on wheat. That price reflected the June 1, beginning of the market year, loan rate, did it not?

Mr. KAY. Beg your pardon?

Senator MELCHER. We have already had that adjustment, have we not?

Mr. KAY. On our prices?

Senator MELCHER. Yes.

Mr. KAY. Well, when our prices came down, we now are selling wheat for around a $103 a ton. The average competitor price, at least the posted price—and sometimes you do not always get what they sell for in the posted price—but our competitor prices are now around $107 a ton versus our $103 a ton.

Senator MELCHER. That is on Export Enhancement sales?

Mr. KAY. No. That is on the price of our wheat at the loan rate.

Senator MELCHER. Dr. Abel mentioned emphatically the use of programs such as Public Law 480, section 416, short- and intermediate-term credit to develop markets. He emphasized that much more than the other two witnesses. I do not know if Mr. Paarlberg even mentioned it. Mr. Kay mentioned 500,000 tons, under section 416.

Mr. KAY. That is what we are mandated by the law to use for section 416—500,000 tons of grain, and at least 150,000 in dairy.

Senator MELCHER. Those are piddling amounts, are they not?

Mr. KAY. Well, compared to stocks, they might be, yes.

Senator MELCHER. Piddling. It does say you have to use that much, but it does not say how much you should use. Is that what you are saying?

Mr. KAY. No. I said for all, said the——

Senator MELCHER. The minimum you can use is 500,000 tons, but ought you not use 10 million tons, or 20 million tons, or some larger number?

Mr. KAY. Well, it all depends on what the demand is out there, Senator. I must be honest with you. But we have looked the world over as to where we can carefully place this without serving as a disincentive for production in those countries. We have looked at infrastructure, as to whether or not they have room to house it and to store it, and we have stuffed food down the gullets of almost every country in the world, Senator, and even in Africa, there were 20 countries that had trouble with the drought. Now, only four are having difficulties. The others are having bountiful crops.

And I think we have to be very careful in the use of our bountiful supplies, lest we have criticism if we put it somewhere and it would rot and spoil.

And I think that a problem like this is much like the problems that we always face. Some people want to solve the problem by throwing money at it, which is not effective, and it is not effective, either, to solve our surplus problem by throwing our commodities where they will not be used, and they will spoil and rot, and serve as disincentives.

And I think we have a responsibility in this world to use our resources carefully and wisely, rather than to throw them at a problem which probably will not solve either our problem or their problem.

Senator MELCHER. Those are pretty strange words. How many Foreign Agricultural Service employees are under your supervision in sub-Saharan Africa?

Mr. KAY. There are six.

Senator MELCHER. There are six?

Mr. KAY. Yes, sir.

Senator MELCHER. Are you going to say that in those forty countries of sub-Saharan Africa, with your six employees, that you are better advised than the Food and Agricultural Organization in Rome? They have a lot more people looking at this than you have.

Mr. KAY. No, sir. Senator, I am not saying we are better advised, because we speak with the FAO and all the international organizations. And we do not run these programs alone. We run them in cooperation with the other institutions.

Senator MELCHER. Have you talked to them lately?

Mr. KAY. Yes, sir.

Senator MELCHER. I talked to them a week ago and they said that there was a shortfall of 1.7 million tons of wheat in sub-Sharan Africa this year. How do you talk to them and not get the same answer?

Mr. KAY. Well, I thought we were all on the same wavelength, Senator. We will contact them and see, but I can tell you that we have looked in every nook and cranny in this world as to where we can place commodities that will be used.

Senator MELCHER. Does that include Nigeria? The 1.7 million metric tons short fall of wheat that FAO shows for sub-Saharan Africa does not include Nigeria. What do you have on Nigeria? Anything?

Mr. KAY. Yes.

Senator MELCHER. What?

Mr. KAY. We have talked with Nigeria, and they, of course, are interested in our 102 Program. We have been their principal wheat supplier, but, as you know, they have a debt insofar as what they owe us, and they have not agreed to come to terms with the IMF, and consequently, we cannot extend them credit.

Senator MELCHER. We have the wheat. They are a potential customer. We have section 416, but you have not even talked to them about it, have you?

Mr. KAY. I would not say it has not been discussed; no, sir. But the times we have talked, they have not asked us to give them anything. They have wanted to buy.

Even the President over there says he is not going to import any wheat anymore. They are going to become self-sufficient. He says he is going to cut out all wheat imports.

I do not believe that, but I am telling you what he says.

Senator MELCHER. I think they have 100 million people living there, and they have about 50 million of them that are absolutely undernourished. Our purpose is to develop that as a market. Presidents of all countries come and go. Market development is long term.

You are director of the Foreign Agricultural Service at a very crucial time for a number of countries. But you are saying something about "stuffing food down the gullets of people, even in Africa."

Mr. KAY. That is right.

Senator MELCHER. We are not stuffing food down the gullets of anybody. What we are trying to do is build some markets. Section 416 is one of the tools. You worry about throwing the food out so that it will rot and spoil—is it not true that ASCS has a big problem figuring out where they are going to store all this surplus grain this year?

Mr. KAY. They do not have any problem with wheat, as I understand it, at ASCS. I do not work at ASCS——

Senator MELCHER. They are just worried about corn?

Mr. KAY. Well, I understand there is a problem with corn.

Senator MELCHER. Dr. Paarlberg, you did not mention these food aid programs either. I was a little surprised that you did not stress, as Mr. Abel did, that you march forward with some of these programs for market development at the same time as you use other tools. You did talk about reducing the loan rate, reducing the world price, and aggressively following an export program for the country.

Dr. PAARLBERG. I agree that that should be done, that these export authorities should be used, and that they should be used with regard for the interests of the recipient as well as the interests of the donor, and the interests of the country generally, as well as the interests of agriculture.

I think that they are, on the whole, constructive. I am glad they are in the law, and I am glad that Tom indicates a more vigorous use of them.

Senator MELCHER. We have had quite a bit of discussion about Secretary Shultz and State Department interference and lack of understanding on these programs. But isn't there some question about what the alternative is? Is the Foreign Agricultural Service, with six people in sub-Saharan Africa, going to be the authority or are we going to turn to AID, which would probably have several hundred assigned there?

Dr. **Paarlberg**. Well, if you are asking me the question, Senator—you were looking at me. This matter of concessionary exports should not be decided by six attaches in Africa. It should not be decided solely by the Foreign Agricultural Service. It should be decided by a combination of the Secretary of Agriculture and his agencies, and by the Secretary of State, who has responsibility for our diplomatic relationships, and by the Office of Management and Budget which is concerned with costs. And by the Commerce Department, which is concerned with the impact of concessionary movement on commercial sales. And by the President himself, and his people, who should adjudicate these different interests. And the concerns of the receiving nation should be taken into account.

That is my view of how these things should be decided. The Congress, of course, which appropriates the money and enacts the laws, should have a role in setting the format.

Mr. **Kay**. Could I interject here, Senator? As you know, we have a Food Aid Subcommittee in this administration chaired by Under Secretary Amstutz, made up of representatives of AID, Food for Peace, and the other departments, save Commerce, that Dr. Paarlberg named. Food aid decisions are not made by six agricultural attaches in Africa, but by input from all of those who know it very well. As you know, we have established an early warning system in which USDA participates, along with other agencies in the Government, along with our remote sensing capabilities. All of these inputs are made, when decisions are made about food aid, and it is not as though FAS, with its six attaches in sub-Saharan Africa, make a decision like that. This is part of an interagency process.

Senator **Melcher**. It is an interagency process. It never gets decided to move some export commodities.

Dr. Paarlberg, do you still agree with what I believe was a Paarlberg-endorsed rule-of-thumb within the Department of Agriculture that if you move 100 million bushels of wheat which you would not otherwise have disposed of, you improve the price by five cents?

Dr. **Paarlberg**. I am not sure of that exact number. I do not recall that as a rule-of-thumb while I was there, but it seems not out of keeping with the general relationships that I understand.

Much would depend on how the extra 100 million were moved, whether it were moved directly in commercial channels; were it moved under P.L. 480 with additionality concerns; how much slippage there might be in the movement, and what other policies were undertaken, coincidentally, by other countries. But the figure does not seem to me unreasonable. Probably Dr. Abel has a better grasp on this than I do.

Senator **Melcher**. You have the ball, Doctor.

Dr. **Abel**. Well, I do not know, offhand, what the exact number is. I would agree with Dr. Paarlberg. It depends, how you move it whether or not it has an increase in price; whether it is coming because we are shoving it out, or, whether there is an increase in demand for wheat.

If we can figure out a way to move a 100 million bushels of wheat into the export market, as additional exports, and that it is done constructively, there is, whether it is five cents a bushel, or what have you, there is a lot of economic activity that goes along with moving that 100 million bushels of wheat, and that is what is important.

In the long run, farmers will be able to produce 100 million bushels more of wheat if the market is there. So, I would say that it is not just price; it is the whole economic activity that our rural towns, that our merchandizing system, and our processing system depend on, that are going to benefit.

Senator MELCHER. I assume that you agree that if the Food and Agricultural Organization is correct, and there is 1.7 million tons shortfall of wheat in sub-Saharan Africa, that that would meet the criteria of truly meeting a void, and therefore be an unmet need that would satisfy this criteria of additionality?

Dr. ABEL. Well, part of it, but I would want to look at any of these numbers with a critical eye, because as we know, Senator, in a lot of countries where there is a need for food, there is also a need for policy reform on their part to get their own economies straightened out.

Senator MELCHER. But could this be taken care of by Food for Progress, or section 416, or section 108?

Dr. ABEL. That is my point. The law provides strong authority, through Food for Progress, or section 416, to use food aid, partially as an instrument to buy the kind of policy reform that is needed in these countries, if their economies are ever going to move.

So, the authority is there to do it, and I think we have not moved yet as aggressively as we should to use our food aid constructively.

Now how much of that 1.7 million tons that you mentioned, I do not know, but I suspect a part of it would fit that pattern.

Mr. KAY. Martin, could I say in that connection, that——

Senator BOSCHWITZ. Before you proceed, may I ask you, Senator—we have eight more witnesses and——

Senator MELCHER. I am through, Mr. Chairman.

Senator BOSCHWITZ. Are you?

Senator MELCHER. Thank you very much, Dr. Abel.

Mr. KAY. I just want to point out, Mr. Chairman, that in Africa, under Public Law 480, we have programmed at least 1.6 million metric tons of wheat, and possibly as much as two, and it is not as though we are not being responsible to the food needs in Africa.

Senator BOSCHWITZ. Well, we thank each one of you. Pardon me, Senator Boren.

Senator BOREN. I just want to ask a brief question.

Senator BOSCHWITZ. Sure.

Senator BOREN. I notice in Mr. Kay's statement—and I apologize, I was detained earlier—that you say that you feel the Export Enhancement Program is already working, and that it has allowed us to have our grain exports to replace European Community sales in key markets, particularly in North Africa and the Middle East.

Where have some of these successes come, that you feel would not have come without the——

Mr. KAY. Well, all those Mediterranean countries like Algeria, Tunisia, and places like that, we feel we would have never been competitive, Senator, had we not had the Export Enhancement Program.

Senator BOREN. We have increased our sales to those particular countries over the last——

Mr. KAY. Yes.

Senator BOREN [continuing]. What we have been selling over the last couple of years?

Mr. KAY. We have sold almost 5 million metric tons of grain that we would not have sold, we think, without the Export Enhancement Program, and we feel that that would establish an additionality of some, at least 2 million metric tons.

Senator BOREN. Let me ask: Has there been any indication that the operation of this farm program keyed to the Export Enhancement Act part, has gotten the attention of the European Community? Have there been any overtures to the European Community to move toward some kind of serious joint negotiations on this subject?

Mr. KAY. Yes, sir.

Senator BOREN. Obviously their policy has transformed them from an importer to an exporter, a major export competitor in many, many areas, and it is responsible for upsetting the whole world balance.

Are we getting their attention? Have we significantly impacted the cost of their program?

Mr. KAY. Excuse me. We are getting their attention because we are getting in their pockets, and, for the first time, at a summit meeting, in the summit meeting that was held in Tokyo, there was a statement that four of the members, presidents of the European Community signed, which addressed the problem of worldwide overproduction, and the need to look at export subsidies. We have great confidence that that will be a part of the statement for the opening of the new round when they meet in Punta del Este in September. They are having to increase their subsidies and their restitutions, and I believe we are getting their attention. Yes, sir.

Senator BOREN. Well, I think that is important. It is important that at the chief-of-state level, we get this firmly onto the agenda for serious discussion, I think as early as possible, because otherwise, we will just continue to all suffer as a result, and, of course, our hope is that this warning shot across the bow will bring them into serious negotiations with us.

Mr. KAY. It was important, that in this negotiation we had with them over the enlargement—the Spain and Portugal question—that for the first time they saw an administration stand shoulder to shoulder, all the way from the President, throughout the administration, saying to them, "There must be compensation."

For the first time, they found no chink in our armor, and I feel that they understand now that we are serious about coming to terms with this problem.

Senator BOREN. Thank you.

Senator BOSCHWITZ. All right. Thank you very much, gentlemen, and now, we will call Ron Johnson, Dave Lyman, Carol Brookins, Carroll Brunthaver, and Dale Fallat.

Senator BOREN. Mr. Chairman, I wonder if I might just say a word about one of these witnesses as they are coming to take their place.

Senator BOSCHWITZ. Yes, sir. Go right ahead.

Senator BOREN. I am glad we are going to have the testimony from all the members of this distinguished panel, and take particular pride that Ron Johnson is one of them. He is one of our own in Oklahoma. He has been the executive vice president of Agrico and the Williams Companies. He went with Agrico back in 1950, after he left the University of Missouri, and stayed with them after they were acquired by the Williams Companies.

He has had virtually every position with them: group vice president up to the level of executive vice president. He is now a consultant with them, with Agrico, with the Williams Companies, and he has been affiliated with virtually every national and international organization in the fertilizer field.

He is chairman of the Agriculture Policy Committee of the Fertilizer Institute. He is on the Council of the International Fertilizer Association. He has been a board member of PPI, and many other organizations in the industry. So, Mr. Chairman, I particularly want to welcome Ron here this morning and I know that we will benefit from the perspective which he will bring to this issue.

I might say, Mr. Chairman, that in the past, he has even shown the wisdom of saying some kind words about the Boschwitz-Boren initiatives in the area of agricultural legislation.

I know the chairman will therefore recognize that he has good judgment, and will obviously bring us some thoughts worth listening to.

Senator BOSCHWITZ. The chairman is going to figure out what the impact of that would have been and how the farmers would have fared, in the event that that would have been adopted. So it is hard to determine what the market would have been, et cetera, but we indeed welcome Mr. Johnson, as we do the other witnesses, and, with that introduction, Mr. Johnson, I trust you will proceed.

STATEMENT OF RON JOHNSON, EXECUTIVE VICE PRESIDENT, AGRICO CHEMICAL CO., TULSA, OK, REPRESENTING THE FERTILIZER INSTITUTE

Mr. JOHNSON. Thank you very much. With that introduction, perhaps I should just excuse myself. I'm sure I'd be ahead.

I believe the committee has been provided a written statement and I would ask that that statement be made a part of the hearing record.[7]

Senator BOSCHWITZ. Fine.

Mr. JOHNSON. I would like now to amplify a bit on the pertinent issues raised in our recorded comments. I think our legislators in Washington should be commended for our 1985 farm bill. It has, as we testified before, encouraged an attempt to arrive at a more marketing-oriented type solution rather than by supply management, and I think that that was built in. Certainly, it is much more progressive in that view than the previous legislation in 1981.

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[7] See p. 435 for the prepared statement of Mr. Johnson.

In addition, I think there was a great deal of discretion given to the Secretary of Agriculture, and he now has an opportunity to exercise some of those provisions that would even further encourage exports.

We recognize as reasonably fiduciary responsible business people that this is a costly program. But I would suspect that the same people recognized that at the time this program was voted into legislation.

With target prices established at fairly high levels and loan rates progressively declining, obviously deficiency payments are going to be accelerated, and as a result of those lower loan rates, and the adjustments that the Secretary made in those rates, then obviously the market prices are going to reflect the lower loan rates, and those who stayed out of the program had no alternative but to virtually go bankrupt. As a result, there was a large enrollment in the program.

So what happened, an awful lot of our farmers, at least 90 percent of those farmers, I understand, have enrolled in the program, and with deficiency payments indicating, at the levels where they are, it is going to be very costly.

In the last couple of days as I have wandered around Washington, it seems to me that I have been hearing estimates anywhere from about $25 billion to $30 to $35 billion. I think the New York newspapers are beginning to "make some hay" of that. So, I think we might as well begin to get prepared for the possibility of a great deal of press developing over the cost of our farm bill. But I do not think that is, necessarily, a major issue. I believe that the American people are quite willing, and are prepared to support the burden of trying to get our farmers out of the dilemma that they are in today.

But I think that they are also asking for some results. It would seem to me that we can all be forgiven, really, for designing a program that provides a certain amount of windfall profits, let's say, to any sector of our economy.

But I think in so doing we expect results from that. I think we can be forgiven if we ask the Government to just extricate themselves from all of agriculture, and therein leave the farmers on their own, and, in their entrepreneurial way, they would have to forge for themselves in the independent market, and of course that would be chaotic. They were not the people who designed previous programs that helped bring about this situation.

But I do not believe we can be forgiven for a program that only goes a certain amount of the distance, but does not fully provide solutions to these problems.

Obviously, and everybody in this room has knowledge, at least a little bit, in the export arena. So, we need not discuss the loss of the export markets that we have had to suffer through. We need not discuss that we have gone from a $3 billion program to perhaps a $25 or $30 billion program. That is all known. I made a comment yesterday to Chairman Helms that I think is an analogy.

My daddy told me one time: he said, "Son, if you're wearing a tuxedo, then don't wear a pair of tennis shoes. You're approximately there but you're still not appropriately dressed."

And I take issue with some of the comments that we should stay the course. I think there are tools available to our Secretary today, that might further enhance our ability to make this program work.

We have talked about the marketing loan. I cannot say that I am an expert on the marketing loan, other than that I would like to try to explain, that as I do understand it, a marketing loan is nothing more than a further racheting down, perhaps, of a target that our colleagues from overseas shoot at. But it in effect mirrors the market price. It does not set a market price; it simply mirrors it.

And in business, it would seem to me that the more uncertainty that you can bring about as a result of your pricing mechanisms, the more difficult it is going to be for your colleagues competing with you, to ascertain exactly where you are coming from. And I think the marketing loan in fact does that. I think the—as I understand it—the President has just recently responded to an inquiry from Thailand, to the Prime Minister, Mr. Tinsulanonda, in which he tried to explain that we in fact, with a marketing loan in rice, are really mirroring a marketing price.

Now I happen to have a number of friends in Thailand as well. The Metro Co., the Thai Fertilizer Co., are very good friends of ours. We do a lot of business in Thailand as a matter of fact.

I have met with a lot of dealers in Thailand and I have met a lot of farmers, and they are very prideful people. They are very efficient producers. And I cannot believe that they are not struggling under some real fears and illusions that some type of a drop in price of rice is going to put them out of business.

Because they are very efficient producers, and very efficient producers should be the people who reap the rewards, and I think the Thai people will stay in this market very well.

But I think they do have to understand that there is no certainty; that they are going to have to determine, by virtue of the marketplace, as to what the price of rice might be.

The marketing loan will take the price of rice up, just as well as it will take it down, and therefore, we all—those rice producers, the wheat producers in Canada, the wheat producers in Australia—should be very much interested in higher prices, and therefore, they should not be burdened with the concerns, that because of our fluctuating type of loan rate, as in the case of rice and cotton today, is going to be a real burden to them.

I doubt, seriously, if they really are concerned, but I do think it would be a much more pleasant environment for them, if they knew exactly what these prices were going to be, so that they could take advantage of it and undersell us.

We know, as well as the ladies and gentlemen here, that the choices really are fairly slim. If we have a very large budget, then I presume that legislation could be enacted in which we do something about reducing our target prices. We could also cut the acreage, as in the previous PIK Program, but we know that does not work.

And so it seems to me, that if we use these enhancements—I say not stay the course—let's use the marketing loan concept for feed grain and wheat the same we're now doing so successfully with rice and cotton.

Thank you very much.

Senator **Boschwitz**. Well, I would say to you—and I will not comment on each, or, I do not intend to, each witness—that "staying the course" means utilizing the existing legislation. Staying the course means, at least to me, that we do not change the legislation.

Once you open the legislation up, you never can tell what happens around this place. So that staying the course does not mean that we should not utilize, fully, those avenues that are available. The marketing loan, if it were in a vaccum, might be more useful in my judgment, or fairer in my judgment, to the Thais, and I will have some comments to make about them, but when you give an incentive to produce by having a high target price, and then you flood the market, and then you drive the price down by having the surpluses, and then you have a marketing loan, you cannot have both and be fair to our foreign competitors.

Mr. **Johnson**. That is very obvious, Mr. Chairman.

Senator **Boschwitz**. That is my principal problem with the marketing loan, among others. But now we turn to Mr. Lyman, and Mr. Lyman, we will make the entirety—as we will of Mr. Johnson—we will make the entirety of his testimony a part of the record, and, while we will not reprint this whole thing, if you give us a few extra copies, we will make it, too, a part of the record.

STATEMENT OF DAVID LYMAN, PRESIDENT, AMERICAN CHAMBER OF COMMERCE IN THAILAND

Mr. **Lyman**. Thank you, Mr. Chairman.

It had not been my intention to read from the testimony this morning but to ask that it be submitted as part of the record.[8]

Mr. Chairman, Senator, I am the president of the American Chamber of Commerce in Thailand. We have among our members 400 American and associated companies, $4 billion worth of United States investment in Thailand, and $2.4 billion worth of bilateral trade in 1985.

Senator **Boschwitz**. You live over there?

Mr. **Lyman**. Yes, sir. I am an American citizen. My family has been resident in Thailand for 37 years. I have been practicing law there for 19 years. I have traveled halfway around the world for the sole purpose of testifying at this hearing today.

I hope you will forgive me if I am a little punchy, or if I stammer a bit, because I have been 29 hours on an airplane, and while I came to Dulles, my baggage went to Dallas. [Laughter.]

Senator **Boschwitz**. I presume you did not think that quite as funny as——

Mr. **Lyman**. Fortunately, it showed up last night, quite late. Otherwise I would have been here in rather informal attire.

I come before you, sir, to talk about Thai perceptions of the Food Security Act of 1985 which they refer to as the Farm Act. And I will be using this word, perceptions, throughout my testimony because it is so important to Thai-American relations.

And I will also be talking about Thai-American relations. That includes diplomatic, commercial, and strategic. I will try and cover what is rice to Thailand, and what is the impact of this Thai perception of the Farm Act on United States business in and with Thailand. Again, perception by the Thai is very important, and to the Thai, perception is reality.

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[8] See p. 442 for the prepared statement of Mr. Lyman.

From the Thai point of view—and I am not here to plead the Thai Government's case. From the Thai point of view, rice, to Thailand, is its lifeblood. They look at it that Thailand is rice, that rice is Thailand. That it is the pillar of the Thai economy, and, for that matter, it has been their major source of foreign exchange, as that has been used for the last 500 years.

Thai-American relations are at its lowest point in my 37 years of observing them. Why? Because of the Thai perception that the Farm Act is predatory and that it attacks the very roots of friendly relations between two allies which have lasted for 150 years.

When I am referring to the Farm Act, I am referring solely to the rice provisions of the Farm Act.

To the Thai, the relationship between Thailand and the United States is a very special and treasured relationship, and I know you all have had experience in Asia, and you appreciate that in Asia relationship is everything. It is the most essential element of any dealing.

Perception, which I have mentioned, let me give you a key illustration. Under the Food Security Act, the U.S. Department of Agriculture is supposed to follow the world prices of paddy and declare each week, every Tuesday, what they view as the world price of rice, as it has been from the statistics that have come in for the previous week.

From the Thai point of view, and from virtually every other producer overseas, the United States does not follow the price of rice. They set the price of rice. By law, the USDA cannot do that, but that is the perception. And that is in fact what seems to be happening in the world market because the world market is following this world price that is set every week.

There is terrible resentment against the United States, because they feel they have been victimized by a friend, and a friend's anger can really hurt, and that is the way they see their relationship.

They feel that the level of playing field which the United States wants in its dealings with its allies overseas has been tilted severely, tilted on end, if you will, by the United States. And that the United States is making Thailand an innocent victim of the very thing that the United States condemns the EEC for, the heavy subsidization.

And they have come to the point where they distrust America. Now this is the first time in 150 years that they distrust the United States.

Let me give you just a few statistics here. To Thailand, 60 percent of the land that is cultivated in Thailand is in rice. Some 23 million people are in rice. That is one-half the population of the country. They depend on rice for their sole source of income.

Thailand has been, and still is, the world's No. 1 supplier of rice, and they have about one-third of the world market. Between Thailand and the United States, the two countries control about 45 percent of the world market. You throw in Burma, Pakistan and China, you get about 70 percent of the world market.

And all this is done by the Thais with no subsidies whatsoever. Now the Thais are not against subsidies. The Thai farmers wish that their Government could afford to subsidize them the way the American Government subsidizes the American farmer, because farmers, I am sure, are alike around the world, and they face the same kind of problems.

The Thai farmgate prices are what I am concerned about. If I may refer you, sir, to appendix 12 of my statement. Now appendix 12 shows——

Senator BOSCHWITZ. Hold on. Yes.

Mr. LYMAN. It is a graph.

Senator BOSCHWITZ. Yes.

Mr. LYMAN. And it shows wholesale price and farmgate prices. Wholesale is the solid line; farmgate is the dotted. Please ignore the wholesale prices at this moment.

Let's look at the farmgate prices. They vary from about 2,820 Baht, starting at the lefthand edge—that is in March of 1980—then it goes up and down until it drops way down here to about 2,100 Baht. There are 26.30 Baht for one U.S. dollar. The Thai Ministry of Agriculture has said that the Thai farmer's average production cost is 2,820 Baht for 1 metric ton of rice. They measure in metric tons. Here, in the United States, it is in hundredweight.

That is $107.22 a metric ton to grow a paddy and to sell it at the farmgate, just to meet their cost of production. So anything below that line means the Thai farmer is going to be losing money.

What has happened is, it has pretty well stayed above that line until we come to around November 1985, and then you will see, right at the righthand edge of this chart, it just falls right off the cliff.

What in effect has happened since the end of last year, the Thai farmer has—the price, rather, has dropped about 20 percent. In actuality, his current sales price of rice, which is about 2,231 Baht, $84.83, per ton, is 30 percent below his cost of production, and there are no subsidies to help him out.

Why is Thailand important to the United States? Let's look at that issue. From a diplomatic point of view, Thailand is a key ally of the U.S. in Southeast Asia.

Senator BOSCHWITZ. Your testimony on the number of people is interesting and the contrast, that you have skipped over, about there only being 11,000 U.S. farm families engaged in rice, is an interesting point, too.

Mr. LYMAN. That is the information that we received from the Department of Agriculture. That is about 44,000 people versus 23 million.

Senator BOSCHWITZ. Pardon me. I did not mean to interrupt.

Mr. LYMAN. Thank you, sir. Thailand is still fighting the Vietnam war. Every day, their soldiers and civilians are dying on the border areas of Cambodia and Laos. They are in a strategic position to look into Cambodia, China, the Malacca Straits, which control access between Europe and the rest of Asia.

At great effort, they have been attempting to control and to eradicate the production of narcotics which come from the Golden Triangle of Thailand, Laos, and Burma.

They have accepted hundreds of thousands of refugees out of the Indochina area in the last 10 years. They are a leader in the ASEAN area, and ASEAN is one of the largest markets that the United States has.

They are a sterling example of democracy. Two days ago, they had an election in Thailand to elect a new government because the old government lost on a vote of no confidence.

And they are a fine example of the free enterprise system and how it really works. From an economic point of view, between Thailand and the United States, the Thais buy from the United States cotton, tobacco, wheat, fertilizer, F-16 aircraft, military weapons to hold off the Communists trying to invade from the east. They buy Boeing commercial aircraft, high technology, et cetera. Thailand and the United States have a special treaty called the Treaty of Amity and Economic Relations of 1968 under which the United States, or the American businessman is treated as a Thai national for most purposes. No other country has that relationship with Thailand.

So what is at stake? We have Thai-American trade. We have U.S.-ASEAN trade. We have U.S. strategic and security positions in Southeast Asia.

I know, from listening this morning, and from my other experiences here in Washington, that linking a retaliatory action is something that is against the, goes against the grain of the American, and, unfortunately, probably everybody, but that is what could well happen. It has not happened yet. The Thais have not threatened retaliation, but there is certainly a wide open area for it. Lack of support in the GATT for the United States. The loss of the markets for U.S. goods and services, and perhaps even shutting down some of the refugee centers.

There is a solution, we feel, and we would like to try and find a way out. At our chamber of commerce, we have thought about it, and we think we have a solution on a short-term basis and a long-term basis—to find a way for the United States and for Thailand to coexist in the rice markets as they have for decades.

It has only been within the last 6 to 8 months that there has been a problem. And this is primarily because rice is just not rice, there are many different kinds of it. And Thai and American rice served different markets. There is some overlap.

The American farmer has to have a safety net to protect him. That can be maintained. What we are looking at, as I understand it here, is a new method to try to effect an income transfer to the U.S. rice farmer from the U.S. Treasury without depressing world prices. Because that is what happened. Now the price, in the past, for the United States, was artificially high; now it is artificially low.

In the short term, if I may refer to appendix number 19. Appendix number 19 is United States-Thai rice prices, CIF, Rotterdam.

Rotterdam seems to be the only market in the world where rice prices are quoted. They are not quoted on any commodity exchange anywhere in the world.

There is a spread between Thai and American rice prices. This has been traditional, because American rice is better, higher quality, it serves the taste of those who prefer it, and it is actually cheaper to ship it to many countries than it is to ship Thai rice.

Senator Boschwitz. Thai is mostly short grain?

Mr. Lyman. No, sir. Mostly long grain. But the Americans export mostly parboiled. About half of it is I think is parboiled. And long grain, and then medium grain. Thai rice prices have been dropping steadily over the period shown in this graph. Because there has been a premium—a spread, if you will between the two prices, there is a premium on it for American rice. Now this premium is, as I understand it, built into the formula by which the USDA calculates weekly what the U.S. market price for paddy is going to be, or is, rather; how they see it.

But they use, as I understand it, an empirical value of about $40 per metric ton, and what we are suggesting is, since this is a figure that could be deemed discretionary, is to increase that spread. This all can be done without legislation; just through an agreement between Congress and the administration.

You increase that spread—what you in effect end up doing is increasing the U.S. observed world price of paddy. That, in itself, will just allow the market to drift up.

We have got to, from the Thai point of view, bring up the Thai farmgate prices to at least his cost of production, and by doubling it or tripling it in the formula, then the market forces will then take over.

Mr. Chairman, that concludes my remarks. I hope that they have been helpful, so that you will be able to lead us through towards solutions which I have outlined, and I trust that you will agree that it is important for the United States to try and maintain good relations between the United States and Thailand. I will be glad to take any questions.

Senator Boschwitz. We certainly do believe that that is an objective that we seek, and we think as long as you are here, that perhaps we can put you together with some people at the Department of Agriculture, and ourselves, and maybe we can find a way towards a solution.

Senator Boren, I have been going with the whole panel, of course, but if you want to——

Senator Boren. No, no. Go right ahead. I will interrupt if I——

Senator Boschwitz. This is a situation where the marketing loan, you know, seems to be working for us, obviously not working for them, and where the target prices still bring about a lot of production.

Senator Boren. Has there been any shift in market sales? You mentioned the price depressant, but in the rice area, has there been any case where the Thais have lost their traditional methods, or the United States has increased its markets above traditional shares? Or has it been a result of the lower price on both sides, without any real market displacement, one way or the other?

Mr. Lyman. I think the answer is yes, to all of the above.

In actuality, both Thai sales and United States sales have increased. In terms of Thai sales, their sales are of the much lower quality rice, the broken rice. The high grade rice is where Thailand is having a problem. There has been some market overlap, particularly in the Middle East. Thailand has increased to almost record numbers in terms of volume, but they have lost a minimum of $100 million thus far this year.

Senator BOREN. Which countries have suffered the loss in sales, then, if the United States and Thailand have increased their sales? Or has there simply been larger worldwide sales, altogether, of rice, because of the lower price?

Mr. LYMAN. Indonesia started out into the market, but then, because of their heavy subsidies, they have withdrawn from the market. Pakistan has been increasing their sales, slowly. They have a very small percentage. Burma, the same. Uruguay, and, I believe, Argentina.

None of the countries have really suffered in terms of lost sales——

Senator BOREN. Lost sales.

Mr. LYMAN [continuing]. In volume. Dollar value, yes.

Senator BOREN. You said except, perhaps, Indonesia?

Mr. LYMAN. Except, perhaps, Indonesia, but that was—Indonesia was heavily subsidized, subsidized through their oil profits. But with the price of oil dropping, they can no longer afford this subsidization. As a matter of fact, it is hoped that the Indonesian market will open up; so that Thailand can supply the high-grade rice to Indonesia. It is right next door. It is a neighbor in ASEAN.

Senator BOREN. Thank you.

Senator BOSCHWITZ. Your constituent has to leave. Do you have any more questions of him, Senator, before he does?

Senator BOREN. You said that we should make further utilization of the tools that are already in the farm bill.

Would you suggest that we might look at, while keeping this bill in place, possible substitutes? Would it be worthwhile to look at the cost of the program, as the chairman outlined, as in our approach last year, with perhaps some sort of opportunity to go back and revisit the farm bill? Of course keeping this in place until there was something that might be substituted for it?

Mr. JOHNSON. I would think, Senator, that it would be very difficult, of course, to open up a farm bill at this particular time. There may be, of necessity, a reason to look at it again in, say, 1987.

I misunderstood. I guess the positions have been taken earlier, that is, stay the course, because I felt that we are not using those tools that are available to the Secretary, right now, for feed grains and wheat, as we are for rice and cotton.

Yes, there is great costs, as I mentioned before, associated with this farm legislation, but I do not think it should be a surprise. And I think our people are willing to live with those costs, but I think we must get results. And right now, with a 2 billion bushel wheat surplus, and a 5 billion bushel corn surplus, I question that later on, or pretty soon, this fall, when that corn crop comes in, I think they are going to wonder whether or not we are getting results.

And it does appear, at least to me—I am not a rice expert, or a cotton expert—but it does appear, to me, that maybe use of the marketing loan practice—it makes a great deal more uncertainty out there, and we may have just broken the code for being more successful in the export market. It sounds to me like that we have their attention, and we are not greatly affecting, in my opinion, the ability of other countries to produce wheat and market wheat, if they are efficient producers. And I think that holds true in Thailand.

And I am terribly sorry, sir, that I cannot stay and perhaps debate——

Senator BOREN. Are there other tools, besides the marketing loan, that you like? Are there any other specific——

Mr. JOHNSON. I think the Public Law 480. Other tools that are available: BICEP, the—I hardly agree, however, just from a business standpoint, that normally, when you have a special program to encourage someone to buy your product, such as China, the Soviet Union, or whatever—those are important customers to us.

And I do also find it unfortunate that we are getting that mixed up in foreign policy. I hardly think that I would take a product out in the marketplace under some type of special program, and not make that product available to those customers who have stood by me during other times, and in fact do represent some of my best customers.

I am not talking about the Soviets now. I am just simply saying, that to ignore those kind of people is sort of——

Senator BOREN. You would utilize those tools to regain our share of the Soviet market?

Mr. JOHNSON. I would certainly do so, most certainly do so. They are one of our best customers.

Senator BOREN. Thank you.

Mr. JOHNSON. And I do thank you, Senator, for your kind remarks.

Senator BOSCHWITZ. Miss Brookins, you were here last week, you are a regular, but we appreciate your testimony, and also the world perspective that your company has, and that you have. So, if you would proceed with your testimony.

STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Ms. BROOKINS. Thank you, Senator. As I was preparing my testimony, I could not help but look back at all your letters that you wrote to educate us all during the time the legislation was getting written, and I did include some parts of this in my own testimony today, and I would like to submit it for the record, if I may.[9]

I would like to thank you for the opportunity to appear before the subcommittee, and I can think of no subject more important for the future of American agriculture than our current and potential export situation. The 1985 Food Security Act I think was an important milestone in agricultural policy in that Congress recognized two critical facts. First, the vital role of U.S. agricultural exports, and second, the relationship between U.S. domestic farm programs and our export competitiveness.

The initiatives within the law are designed to fight unfair trade practices, expand U.S. export initiatives, both commercial and concessional, and adjust U.S. domestic price supports in line with world market realities.

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[9] See p. 446 for the prepared statement of Ms. Brookins.

I think these initiatives will work, given time, and a healthy macroeconomic environment for expanding trade internationally, yet, as you have pointed out, Mr. Chairman, we suffer from the severe disease of impatience.

Today, we are barely 7 months into 1986, and already the doomsayers are claiming that the policy is not working. This charge is absurd and it reflects no real understanding of basic market economics.

The most important element in making our program work is having the perseverance to stay with it. There are many countries around the world, both buying and selling countries, who do not believe we have the courage to stay with our policies and they are waiting for us to boost prices much higher, and to give up and hide behind the GATT and not take the actions we need to regain our competitiveness.

Senator BOSCHWITZ. Or set-aside.

Ms. BROOKINS. Or set-aside. Yes, sir. Thank you.

I think this means, in order to stick with the program, it means we have to continue to spend large amounts of money to support domestic farm income, while we seek to make a transition to real market orientation in the world.

We also have to maintain enough production to allow prices to fall globally for a long enough time period to begin the long process of adjusting world supplies.

If we do not, surpluses will persist internationally, they will grow offshore, and they will be shielded by U.S. unilateral cutbacks, and they will further erode our export position.

We have to stop thinking about price as the barometer of our success in markets and start thinking about volume. We have to stop kidding ourselves about our comparative advantage as the lowest cost producer.

We have lost much of this advantage and we are fighting today to regain it. Where the United States does have a continued advantage is in our efficiencies in moving agricultural products, in volume, from farm to export destination. We are the low-cost volume exporter and the world knows it.

Yet our programs in the past have been——

Senator BOSCHWITZ. Where are you reading all this good stuff from? Where is that in this testimony?

Ms. BROOKINS. I skipped some and added later information when I cut my written testimony for presentation here. Is that all right? I will give you a copy of this. [Laughter.]

But we are the low-cost volume exporter and the world knows this, yet our programs in the past have been directed against maintaining this competitive edge. The more we raise prices to satisfy someone who believes high prices are good, even when there is no one to buy the production except the U.S. Government, the more we reduce our export potential.

Today, we must put all our efforts toward what we can realistically do to improve our agricultural export development. This is going to take time, and the length of time required will depend upon crop conditions in exporting and importing countries, and the level of economic growth in the world.

It is only through increased economic growth that purchasing power will increase in major markets for future exports from the United States. These are the developing countries, the less-developed countries, and the centrally planned economies.

Well, being a businessperson, I believe you have to have a plan of action, and I think in this case our plan of action must be clear, it must be positive, and it must be effective.

I think we have three major objectives to achieve through the 1985 Food Security Act. First and foremost, we must reform the rules which govern the agricultural trading system in the world in order to reduce the barriers to markets, and the inequities in trade which exist.

The United States should take a vigorous lead in bringing others to the bargaining table immediately to negotiate rules which remove distortions in selling policies and market access.

All of our provisions under the 1985 Food Security Act to fight unfair trade practices through the Export Enhancement Program and through TEA, are important tools of our strategy; yet we have to remember, that these subsidies are just tactical instruments and they should not be considered in ways in which they would be institutionalized.

They must be used to achieve our objective of making the world agricultural system an open and competitive marketplace, rather than just giving into the forces of permanent subsidization.

There is no question that we need to respond directly to unfair practices, particularly those of the European Community and there is also no question, that as we do this, other countries will be hurt by our subsidies, just as they are hurt by those from the European Community.

But this will broaden the base of support for building a bridge to reform. I think it is a good thing today, that the European Community, that Australia, that Argentina, that my friend from Thailand, that the Canadians are upset—it tells me we are doing the right thing. It tells me that over the past 10 years, no one has been upset, no one has complained about our raising price supports every year, and our cutting acreage every time we had a surplus, because they were all protected by our umbrella.

Today, they are shouting, and maybe they are going to shout enough, that they are going to say, "We have to bring this whole system into reform. We have to negotiate something which allows us to sell fairly."

Senator BOSCHWITZ. I might say, I was tempted to say some of that to my friend from Thailand, but after he described the nature of his trip I felt badly about doing that. [Laughter.]

But I have said those things to the Ambassador from Australia. I said, "Where were you when we were holding the wheat price at close to four bucks?"

Ms. BROOKINS. We are all innocent victims, perhaps, Mr. Chairman, yes. I guess it is hard to imagine prices being artificially low. Price is determined by supply and demand, and I do not think prices can be artificially low. I am sure that the oil producers today meeting are probably having similar discussions to ours today here in Washington.

The second thing that I think we have to do is, we have got to move the world back to agricultural production decisions based upon real market returns. We are on the right track with our domestic program decisions, but the commitment must continue, to permit markets to seek their clearing level, to let prices reflect real supply and demand.

This has to be sustained, and perhaps as you discussed, the idea of doing something to adjust our target prices—perhaps in wheat and feed grains, for example, we might be able to develop something where there would be a marketing loan for wheat and feed grains without a 20-percent limit. So that it could work in the same way that the rice marketing loan has worked.

I think when you set a target or a limit, you do not permit the market to work, and I think the market has a better chance to clear and to recover, if you let price drop and find a level at which it can——

Senator BOREN. Well, if you have a marketing loan combined with a target price, though, the target price does not inhibit you, legally, in any way, from having a marketing——

Ms. BROOKINS. No. There is a great deal of concern about the cost.

Senator BOREN. You are talking about budgetary impact.

Ms. BROOKINS. There is the budgetary impact, and there is also the feeling today that the target price is still high enough, that it is encouraging overproduction despite the acreage reduction programs.

Senator BOREN. How would you maintain the existence of the family farmer, then, during the period of time in which you are moving toward this kind of market-clearing mechanism——

Ms. BROOKINS. Well, I would suggest that we reconsider——

Senator BOREN [continuing]. As a social value?

Ms. BROOKINS [continuing]. I would say that we should reconsider the original Boschwitz-Boren approach to agricultural legislation last year.

Senator BOREN. So you target benefits and——

Ms. BROOKINS. You are going to be targeting benefits based on your acreage.

Senator BOREN. Target benefits based to the family-size farm——

Ms. BROOKINS. That is right.

Senator BOREN [continuing]. And then that will enable you greater flexibility in the marketing.

Ms. BROOKINS. I think people who were looking at Boschwitz-Boren a few months ago and saying, "Oh, my God, it is going to cost $52 billion," are scratching their head a little bit and saying, "Maybe some people had a good idea there," Senator.

Senator BOSCHWITZ. Then let the farmer——

Senator BOREN. Give her more time.

Senator BOSCHWITZ. Particularly with these interruptions. [Laughter.]

And then let the farmer keep what is above the loan rate, and so that it just——

Ms. BROOKINS. That is right.

Senator BOSCHWITZ. So that as you reduce the market price, or as you reduce the transition payment, you give him the upside of the market, give him a little hope.

Ms. BROOKINS. The third thing I think we must do is increase the overall size of the marketplace through efforts to increase buying power in the developing world.

You know, Mr. Chairman, I did suggest several proposals in this regard in my testimony before your committee on July 15, but I think we seriously need to expand the use of our agricultural credit and aid programs in concert with our overall strategy to stimulate sustained economic growth in developing countries.

Our strategy toward achieving these objectives must be consistent and it must be long term. Any export initiatives or domestic programs we consider should be implemented only if they further the advancement of these three goals.

This means we cannot be concerned about lower prices today in the marketplace, because only through lower prices will decisions to expand production offshore begin to change, and this will take time.

There are major obstacles to overcome and we can expect to see tremendous gains over the short term. However, it is not the time to be discouraged. I continue to believe, that with the tremendous interest in reforming the agricultural system, which was expressed in the Summit communique, and in the OECD ministerial communique, that now is the time to take advantage of this and to move swiftly to call for action and a commitment at the highest levels of government to negotiate now.

I think we are in the right position and I think if we continue to use these programs over the next few months, we will further convince our good allies and friends in the trading system, that it is the right time for them to meet with us, and discuss ways to make this system a better one for everyone. Thank you.

Senator BOSCHWITZ. Thank you very much, and I will read the entirety of your testimony.

Senator BOREN. Mr. Chairman, I just want to emphasize, that I think the last point that was made is so important because we obviously do have to have foreign policy considerations. Two of our best friends in the world are upset with us for different reasons right now, the Thais and the Australians.

We have to bear in mind their views. They have been tremendous friends of the United States. I think they also understand the problems that we have with the European Community and I think are very sympathetic with us.

But I think the only way that we can turn the protest away from the United States and our policy right now, and toward the European Community where it really belongs is for our leadership to be very vigorous, to be just as bold and vociferous—for example—as the prime minister of Australia has been in insisting that we should force the European Community into immediate negotiations.

I think that that is the only way. We should be having the full support of the Thais and the Australians, in our efforts to bring the European Community and others around who have been distorting the market.

The only way we are going to be able to do that is if we are seen as very, very vigorous in pushing the European Community for negotiations. Otherwise, the attention is going to focus on the pain that we are doling out to our friends in the world in the short run because of this policy.

I must say, I do not think we have been bold enough, vigorous enough. I cannot think of anything more important right now from a foreign relations or an economic point of view, in our own country, and other places, than for us to be really pounding the table about this, and pushing for immediate negotiations.

Senator BOSCHWITZ. Well, I do not disagree with you and I am not sure that we can blame the Europeans for all these problems. I am not sure that they produce much rice at all, do they?

Mr. LYMAN. They produce some but not significant amounts.

Senator BOSCHWITZ. They are importers of rice, large importers.

Mr. LYMAN. Yes, sir, large importers of rice. But I think Italy produces some.

Senator BOREN. When you get into wheat, though, for example, and grains, you are in a very, very different situation where obviously——

Senator BOSCHWITZ. But quite clearly——

Senator BOREN [continuing]. They have—I have forgotten the exact figures, but, enormously increased their production through artificial stimulus over the last decade, going from being importers to exporters, and really abused these artificial subsidies to totally disrupt the world markets, and I think we just have to put a stop to it.

Senator BOSCHWITZ. I would say to my friend, that I do not disagree. I think we should be more aggressive. I am not sure that we are going to be able to turn the Thais' attention from ourselves to their very strong customers——

Senator BOREN. No. That is a somewhat different situation.

Senator BOSCHWITZ. And that, as a matter of fact, it is somewhat like the, some testimony that occurred prior. I presume you were at another committee, as we all have to be. I am supposed to be elsewhere as well.

But one of the earlier witneses pointed out what happened in cotton. That we had over half the world's production, and that because we raised the price very high, we now have a much smaller portion.

Senator BOREN. That is true.

Senator BOSCHWITZ. But so it is with rice. I mean, given a $11.80 or $11.90 target price, you are going to get a lot of rice, just like wheat in Europe.

Mr. LYMAN. I just wanted to add a thought on the pricing that the Thais are faced with. To break even, they need, say, $193 a ton in milled rice, $107.22 for paddy, just to break even. What they are getting now for milled rice is about $159 a ton, for paddy $84.83. The U.S. subsidized price for rice paddy, is $262 a ton. That is at the $11.90 target price. At the announced market price, announced weekly by the USDA, it is $158.40 a ton of paddy at $7.20 per hundredweight.

Please understand: the Thais do not oppose the subsidies, nor the marketing loan program, or even the target price. All they are saying is, let's not affect the world price, or the international price, if you will, of rice, through the application of those subsidies.

And try to remember: Thai rice is not subsidized.

Senator **Boschwitz**. Let me now turn to Carroll Brunthaver, who also joined me for dinner last night, and, you do not have a prepared——

Mr. **Brunthaver**. I will have a statement for the record later in the day.[10]

Senator **Boschwitz**. That is all right. You need not do that. It will be taken as you go.

STATEMENT OF CARROLL G. BRUNTHAVER, VICE PRESIDENT, SPARKS COMMODITIES, INC., MEMPHIS, TN

Mr. **Brunthaver**. Mr. Chairman, Senator Boren, if I may summarize. I have been asked to comment on three questions relating to the subject of the 1985 act and trade. First, has the 1985 act really changed the competitive position of American agriculture. Second, are the changes that should be considered to improve the competitiveness of American agriculture. Third, to comment on the question of surplus, are they transitory or are they here to stay?

On the first question have we really changed the competitive position, I think that what we have in this act is a very powerful tool, and perhaps more powerful than people really understand.

Our uncompetitiveness before the passage of this act had not only to do with the high-loan rates, but perhaps, more importantly, the fact that under previous legislation, since 1978 the United States idled 228 million acres of farm land, which held a very high umbrella over our competition.

When we idled this land, especially in 1983 with the PIK Program, we did not have in place a mechanism—when we had trouble with the drought that year—that could release CCC stocks when we artificially created a shortage.

So, we found ourselves, in 1983, with a wheat release price of $6.57. We said to our competition: we are going to idle all this land, but we will not release our wheat at less than $6.57 a bushel. We will not release any corn below $3.58. We will not release soybeans below $6.17 and will not release cotton below 69 cents.

In the new legislation the loan is lower. We still have the high A.R.P.'s, but at least we now have a mechanism, through the generic certificates, to release reserve, and loan, and CCC commodities onto this market, to make sure that regardless of the A.R.P., regardless of the weather, regardless of Russian demand, we can be very competitive.

For example, under the generic relief——

Senator **Boschwitz**. Do you think some of our competitors, because of those generic certificates, are going to be sharp enough to construe that and say that even if we do have a large set-aside, that they will not think that we are backing away?

Mr. **Brunthaver**. Well, whether they understand it fully, or not, sir, they will see it in the market price, and are seeing it in the market price.

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[10] See p. 467 for the prepared statement of Mr. Brunthaver.

For instance, we are releasing wheat today, instead of $6.57, we are releasing it today on the market at $1.99. We are releasing corn at $1.75 instead of $3.58. We are releasing cotton at 22½ cents. So that is going to be felt in the marketplace, and, these are very powerful tools.

Senator Boschwitz. Let me pursue the A.R.P. for just a moment. Do you think that because of that, that we should adopt any type of production control, set-aside? Or that it will not have the same impact?

Mr. Brunthaver. What I am saying is we have the tools to prevent us from being uncompetitive if we are forced to idle more land, which I am afraid we are going to have to do in 1978. We have a real problem in corn, and corn carryover. We are trying to find ways to store 3.7 billion bushels of corn this fall. By next fall, we are probably looking at 5 to 5.5 billion bushels of corn. So it is a very serious problem and we are probably going to have to idle more land, temporarily, to get this under control, as the exports grow in the future.

But we can do that under this act, and still remain very, competitive.

Now this competition, viewed in another way: we can compare the per ton subsidy that the EEC has to pay in 1986 as opposed to what they paid in 1983.

In 1983, they could export on the world market with a subsidy of zero to as much as $20 a ton. Today, for every ton they put out they have to come up with about $100.

The subsidies today cost more than the wheat is worth, and that is a——

Senator Boren. More than 50 percent of the total cost that a producer of wheat in the European Community is getting this year will be Government paid?

Mr. Brunthaver. That is correct.

Senator Boren. Do you have a figure on what the total——

Senator Boschwitz. Pardon me. Of what they export.

Mr. Brunthaver. Of what they export.

Senator Boschwitz. Right. Which is 20 percent of what they produce.

Mr. Brunthaver. Now viewed in another way, the effect on the EEC budget that is used heavily for agriculture, in 1979, because they collected duties on grain coming in and paid a very little subsidy on grain going out, the Community had a net surplus in their trade account of $895 million, that was used to help keep price supports high in the Community.

With the change in the dollar, with the change in our programs, this surplus of $895 million this year, will turn into a deficit of at least $700 million, and more likely $1 billion. Their export subsidies will cost more than the duties collected, by $700 million to $1 billion.

Another way to measure the competitive change that has taken place is to look at the cost of a ton of grain delivered to Southeast Asia.

In 1983, a ton of corn was landed at about $153. This fall we are selling grain, delivering into that area at $87.50.

Now the bigger question is: will that cheaper price, delivered into that area, encourage the Chinese to develop a commercial broiler industry, a commercial hog industry? Will it encourage other countries in Southeast Asia to increase livestock production? And hopefully it will, and we believe it will. But the point is that the act has made us incredibly competitive, and can continue to do so in years ahead, if Congress will stay with this program.

Modifications in the program. With the emphasis on low-cost competition, it seems to me that it is imperative, that the legislation do everything possible to help the producer lower his per unit cost of production.

I do not think we should reopen the act to do this, because I am afraid if we reopen it we will get things we do not want.

But at the proper time, I think that we should seriously consider what we are doing with the bases and yields. The legislation still encourages farmers to produce a given crop so as to maintain or increase his base. Even though it may not be his most economic crop, we are still artificially encouraging him to do things uneconomic, so that his payments next year might be larger. And the same thing applies to yields.

Instead of trying to minimize the cost of production, we are still encouraging the producer to go for maximum yields, just so his payments next year might be larger, and I think that ought to be——

Senator **Boschwitz**. We are going to restudy that. We talked about that last night, and I do not mean to interrupt your testimony again. But I and my staff, and I will get Senator Boren also to do it with me. We will study bases and yields again. We tried to impact that.

Senator **Boren**. Well, in fact, I think the administration authorized the transfer of 10 percent, did we not, on bases, give them discretion to do that, and in fact they declined to use it. There was quite a hue and cry about it. So they forced our wheat producers, for example, to continue to produce when they should be shifting to something else in order to save that base.

It is still going against what really ought to be done.

Senator **Boschwitz**. Yes; right.

Mr. **Brunthaver**. To examine the question of whether the surpluses will disappear, and how easily they might disappear, it is helpful to me, at least, to look at a specific commodity, look at what has happened, and ask the question, can we get our market back?

Corn is the most difficult commodity to get the surplus under control. We are going to make good progress on cotton.

Export sales of cotton, even before the crop year begins, are already greater than the total sales of all last year, and many cotton merchants I think are going to be surprised at the export and domestic usage of cotton. But corn presents a real problem. Our carryover is an all-time record this fall: 3.7 billion bushels, and we do not know where to store it.

Next year, next October, I am afraid it is going to be 5 to 5.5 billion, and that is going to present tremendous problems.

If we look at what has happened: the greatest loss of our corn market, by all odds, was to the EEC. In 1976, we exported 751 million bushels of corn to the EEC. This year we are down to 25 million. From 751 down to 25, and next year, it will probably go lower. Other Western Europe, with Spain and Portugal entering the Community, corn sales is going to deteriorate on us. The United States sold 200 million bushels of corn into other Western Europe in 1979. That is down a half this year to 100, and by next year it is expected to be down to 61 million bushels.

In Eastern Europe, we had corn exports in 1979 of 223 million bushels; this year, it is down to 42. That is a problem of loss of credit. But we are unwilling to provide credit for EEC.

The Russian numbers vary greatly. They were at a high, 2 years ago. This year, 266 million; next year, hopefully picking up a little bit.

Japan is taking a steady amount of grain from the world, but the share taken from the United States has deteriorated rapidly. In 1982–83, Japan took 519 million bushels of corn from the United States which was 78 percent of their purchases. This year, they are down to approximately 47 percent of the purchases coming from the United States. With Japan, the increased competitiveness of United States grain, with the 1985 act, can be helpful.

The same is true for Korea. Our exports of corn to Korea are about a third of what they were just a few years ago, and that is because of competition. They are still importing as much grain; they are just not buying it from us.

Senator **Boren**. Where are they buying it?

Mr. **Brunthaver**. They are buying it from China, and feed wheat from Australia, primarily. But other countries as well.

China is our great hope. They took 85 million bushels of corn from us in 1982. They increased their local production of corn since then. They have not yet developed a commercial hog and broiler industry. If there is one area in which this legislation could be effective in developing demand down the road it is probably China. They have a fourth of the world's people. They like chicken and pork. There is tremendous potential there, if we can spur the development, encourage the development of commercial operations there. The real problem is the EEC, where U.S. corn imports have dropped from 751 to 22 million. We are losing, each year, into the Community, corn exports equivalent to the entire production of the State of Nebraska.

The largest loss of corn exports, as I say, has occurred in EEC. As EEC wheat production and wheat feeding increased dramatically, wheat yields in EEC, encouraged by high support prices, increased from 56 bushels per acre, in 1978, or 1975—56 bushels—to last year's 95 bushels per acre. Compare that with the United States, where yields in 1984 were 30 bushels, and this past year up to 37.

The high guaranteed supports in Europe have, on basically the same type of land, encouraged the Europeans to produce three times as much wheat per acre as we do here.

The result, in Europe, was a wheat production increase of over a billion bushels. The Europeans are now producing more wheat than we do in the United States, because of these high prices guarantees.

From 1978 to 1986, the United States idled more wheat land than the total acreage planted to wheat in France. We idled 109.8 million acres of wheat. The French planted 105.3 during this period of 1978 to 1986.

U.S. production increased 5.3 million tons, or 9.5 percent during this period. French wheat production increased 11 million tons, or 64 percent during this same period. Stated another way: The United States, from 1978 to 1986, contracted with United States farmers not to produce 89 million tons of wheat, while the French, with large production incentives encouraged an extra 70 million tons of wheat production during the same period.

The French alone nearly offset the entire reduction of United States wheat production in the United States.

Senator PRYOR. Would you say that one more time. The French only had what?

Mr. BRUNTHAVER. OK. From 1978 to 1986, the United States contracted with U.S. farmers not to produce 89 million tons of wheat. While this was taking place, the French, with high production incentives, encouraged their farmers to produce an additional 70 million tons during the same period.

The French, alone, nearly offset the entire reduction of the United States wheat production. As a result, since 1982, the Europeans have dumped approximately 32 million tons of wheat onto the European livestock feed demand, which corresponds with our loss of 27 million tons of corn demand sales in Europe.

The entire loss of our corn sales have been taken up by French wheat, that is highly subsidized. Now, to regain a significant tonnage of this corn demand will be very difficult and very slow.

The 1987 wheat crop will be planted in Europe this fall, without any reduction in acreage that I can see because of farm policy change. This crop will be harvested in 1987, and it will be marketed through most of 1988. So it is going to be a long time before we can think about regaining corn demand into that area.

But that does not mean that we should not relax, and not to encourage them, somehow, to change their policies to at least not become a major exporter of corn in competition with us.

The turnaround in corn demand is going to take time. We are hopeful that Congress will be patient and give it time to work. The opportunities, it seems to me, in corn, are to slow down the expansion in Europe, try to get some credit for Eastern Europe if we can. There is a large livestock industry in East Europe that they would like to develop.

The Soviet Union. We really need to examine our trade policy of discriminating against the Soviets by exporting grain to other countries cheaper than what we will sell to the Soviet Union. They do not like that discrimination, and rightfully so.

We need to look at Japan and Korea and try to get our share back. That would help. But the big potential, I believe, is China and Southeast Asia, to develop a commercial broiler and hog operation. The act of 1985 can hurry up the expansion that will benefit the United States.

Senator BOSCHWITZ. How do we hurry it up? You mean just by making the prices attractive?

Mr. **Brunthaver**. Prices are very attractive. We should continue that policy. We should assist the U.S. Feed Grain Council, and others, who are working in China today, to try and develop pilot projects. And whatever else we can do to encourage, locally, the technology flow, and whatever else is needed to hurry that process along.

Senator **Pryor**. And that would be China and?

Mr. **Brunthaver**. China primarily, but other areas in Southeast Asia—Indonesia, and that whole area of Southeast Asia.

Senator **Pryor**. In the hog and chicken area, and then we would sell them the grain?

Mr. **Brunthaver**. That is correct. As we have done before in Japan, Korea, and Taiwan. That same thing is going to happen in other areas. It is just a matter of when. Thank you very much.

Senator **Boschwitz**. I might say, Senator, that we have been holding a relatively informal hearing because there have not been many of us here, and so that the questions have kind of gone as we have listened to the witnesses. I know of your intense interest in rice. Unfortunately, Mr. Lyman has already spoken. I would encourage your staff, or yourself, to get together with him, to see if we can ameliorate some of his difficulties during the course of the day.

Now we turn to—am I saying it right, Fallat?

STATEMENT OF DALE W. FALLAT, MANAGER, LAW AND GOVERNMENT AFFAIRS, THE ANDERSONS, ALSO REPRESENTING THE NATIONAL GRAIN AND FEED ASSOCIATION

Mr. **Fallat**. Fallat is right. The Andersons is a family owned partnership involved in grain exporting out of the Great Lakes system. We operate about 54 million bushels of grain storage and elevator facilities in the eastern Corn Belt, and have been in business since 1947.

I am here in my capacity as a general partner in The Andersons, but I also represent the National Grain and Feed Association, and their international trade and agricultural policy committee.

While I would enjoy the conversation approach to this testimony, I do have to be loyal to the committee process that we follow and as an association are very proud of. I will, however, highlight the remarks.[11]

Senator **Boschwitz**. Fine.

Mr. **Fallat**. I would suffice it to say that the National Grain and Feed Association is a voluntary association of grain and feed dealers, independents and cooperatives from the largest commercial grain complex to the smallest grain elevator, country elevator, and feed mill. There are 1,250 companies represented, and indirectly, through 43 States and regional associations, another 10,000 members.

Senator **Boschwitz**. Where is Maumee?

Mr. **Fallat**. Maumee, OH, is a—Toledo, OH, is a suburb of Maumee, OH.

Senator **Boschwitz**. Oh, I knew that, too, and I——

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[11] See p. 477 for the prepared statement of Mr. Fallat.

Mr. FALLAT. We are on the Great Maumee River.

Senator BOSCHWITZ. Oh, I had no idea.

Mr. FALLAT. Western Basin of Lake Erie.

Senator BOSCHWITZ. I see. So are you on Lake Erie?

Mr. FALLAT. We are and we are a part of the St. Lawrence Seaway System. We have marine export facilities. As a matter of fact, the Great Lakes system is now operating at about 27 percent of its capacity, to just add to some of the data base——

Senator BOSCHWITZ. I know.

Mr. FALLAT [continuing]. That has been shared here so well today.

Senator BOSCHWITZ. The ships come right into the Maumee River, you say?

Mr. FALLAT. Toledo has the honor of being at the mouth of the Maumee River, but Maumee, OH, enjoys that water course as well. Maumee may be a misstatement for "mon ami" in French. It is not known exactly what that word means, but we think it means "friendly." Today's world food economy is an intensely competitive environment, Senators. To compete in this environment, the United States has to be able to compete on relative price terms.

As it has been so clearly shown by the masters in economics and world economic analysis here, the U.S. agricultural policy has actually stimulated our foreign competition. A large portion of competing exporters do not depend on export subsidies. Rather, they assess the risks and potential returns associated with agricultural supply and demand situations on a worldwide basis.

Many competing exporters have had, and have, abundant natural resources for agricultural production. U.S. policies that minimized investment risks of developing agricultural resources and U.S. price support levels that virtually assured high rates of return were all that were needed to promote foreign agricultural production.

We enticed and nurtured foreign competition through our own domestic policy mistakes. Now those same countries have become and remain a formidable competitive force in the world marketplace.

During our testimony last year as part of the 1985 farm bill deliberations, we recommended a four-point proposal to the committee that we believed would gradually return U.S. agriculture to a level of international competitiveness and prosperity.

We cautioned the committee, however, that even under optimistic assumptions, agriculture faced difficult economic times for a minimum of 2 years.

We continue to believe, that a recovery will take some time. Prices do not instantaneously produce new demand, especially in the short term, when prices of similar commodities offered by competing countries moved down with U.S. prices.

Again, the four-point plan we presented to Congress last year—and the chairman may be familiar with these points—called for flexible market clearing loan rates that lower the price protection that we offer foreign producing nations, and permit the United States to sell and compete for world agricultural markets.

Second, elimination of land diversion and set-aside programs. Third, modification of the Grain Reserve Program to ensure that stocks do not become excessive with the reserve drawing grain away from the market and creating artificial shortages.

And fourth, income support payments to producers that are specified for an established transition period.

Senator BOSCHWITZ. Sounds familiar.

Mr. FALLAT. Yes, sir. Mr. Chairman, we believe the new farm legislation clearly is a step in the right direction toward U.S. international competitiveness. While the new farm law does not go the entire distance in terms of making substantive agricultural policy change, it did provide a beginning, and the tools to instill a competitive framework into U.S. domestic agriculture policy.

Mr. Chairman, where do we go from here? It is our sincere belief that the most important position Congress and the administration can take in terms of farm policy is to give the newly passed 5-year farm bill a realistic opportunity to work.

And that, more than anything else, means time, patience, and resolve. I just finished rereading Hemingway's "Old Man and the Sea" and in it the old man said, "My arms, my hands are tired, but I have many tricks, and I have resolution." I think that thought applies here very, very well.

Our foreign competitors need to come to the understanding and full realization that the United States is very, very serious about becoming more competitive, agriculturally.

They must believe that the United States will no longer set prices at levels that provide incentives for foreign producers to increase production, to compete with the United States for international markets unless the marketplace truly warrants it. They must be convinced that the United States will not resort to unilateral supply control actions, such as giant acreage set-aside programs. If two words could be used to sum up a successful approach in the future direction of U.S. agricultural policy, the National Grain and Feed Association believes these words are "consistency" and "resolve."

We must send a signal to our foreign competitors that the United States will consistently utilize all of the authority contained in the 1985 Farm Act to return U.S. agriculture to a competitive force in the international grain marketplace. Toward that end, we commend the administration for fully utilizing the authority provided by Congress to reduce loan rates, to enable domestic commodity prices to become more competitive internationally.

Implementing the maximum permissible loan rate reductions for wheat and feed grains indicates a true desire to return to an agricultural industry driven by market signals rather than Federal programming.

To be sure, our foreign competitors will be watching closely for any signs of lack of resolve from our Nation's policymakers.

Will the United States have the fortitude to stay on course, or will we, at the first sign that immediate gratification—in terms of an overnight turnaround in export sales does not occur—begin tinkering with and changing the farm bill? The answer to these questions will be absolutely crucial to shaping the perceptions of our foreign competitors and will influence, as much as anything, whether their planting and pricing decisions will begin to reflect the new market-based reality in world agriculture.

Mr. Chairman, I reiterate: We believe that the most effective way of corralling the runaway problems in domestic agriculture is to allow the programs and policies embodied in the 1985 farm bill to work.

Abandoning a market-oriented approach in favor of past massive acreage reduction policies, where some would favor a referendum quota system, will only signal to the world that we do not intend to compete in the international grain marketplace.

To return agriculture to reasonable prosperity, our agricultural production must be marketed and sold. To sell we must compete. If we can only show and exercise the needed foresight and resolve, the 1985 farm bill can lead to the lasting recovery rural America seeks and so well deserves. Thank you.

Senator BOSCHWITZ. Well, you would have enjoyed the talk I gave recently to the International Farm Management Congress. The title of the speech was "Stay the Course." And I think that the farmers that we have are stronger, more efficient, they are more cost conscious, and, that they simply have to stay the course and not fiddle around with this bill every time—as you say—for short-term gratification.

Senator Pryor, unless you have some questions of this panel I would——

Senator PRYOR. Mr. Chairman, I regret that I was late this morning. Will the panel be available for questions later? Don't we have another panel to hear?

Senator BOSCHWITZ. We have another panel. If you want to ask—I was going to ask David Lyman to stay and be a part of the suceeding panel. He is from the American Chamber of Commerce in Thailand, and——

Senator PRYOR. Yes. I have been reading his statement.

Senator BOSCHWITZ. I see that Mr. Gabbert of the Rice Millers' Association is going to testify, so I thought we could keep him in the event we want to ask him questions.

Senator PRYOR. Thank you. I have no questions other than to Mr. Lyman, and if he could remain a part of the next panel I would appreciate it.

Mr. LYMAN. I will be glad to stay as long as you like, Senator.

Senator PRYOR. Fine. Thank you, Mr. Lyman.

Senator BOSCHWITZ. He came into Dulles but his luggage went to Dallas. [Laughter.]

All right. We thank you, Mr. Brunthaver, Miss Brookins, Mr. Johnson, and Mr. Fallat.

We now ask Steve Gabbert, Gaylon Booker, and Mike Hall to come and take their places. We will then go in the order of, first, Mr. Booker, Mike Hall, and then Mr. Gabbert.

Which is Mr. Booker?

Mr. BOOKER. Here.

Senator BOSCHWITZ. We are ready.

STATEMENT OF GAYLON BOOKER, VICE PRESIDENT OF OPERATIONS, NATIONAL COTTON COUNCIL OF AMERICA

Mr. **Booker**. Mr. Chairman, I am Gaylon Booker, vice president of operations for the National Cotton Council. I am headquartered in Memphis, TN.[12]

The council represents cotton producers as well as processors and handlers from the Carolinas to California and I am glad to be able to report to this committee that the cotton program that you enacted last year is working very well, indeed.

You have heard from other witnesses here this morning, that our export sales are up rather dramatically. They are up 24 percent over the full season that we are just ending, and that is the advance sales for next season.

Our overseas customers have made these commitments on the basis that our price is world price competitive for the first time in 18 months.

And so thanks to these competitive prices ensured for U.S. cotton by the new farm program, cotton's situation is clearly beginning to make the dramatic turnaround even before the new season begins, and that turnaround could not be more timely because——

Senator **Boschwitz**. We want you to know, Mr. Booker, that the committee is very, very familiar with the expense elements of that, too, but we do not say it is not worth it. Pardon me. Go ahead.

Mr. **Booker**. We had, as we went into this new farm bill, projected world production and carryover stocks that were at their highest levels in history.

Excessive foreign production which was stimulated by foreign government subsidies and an overvalued dollar was making the price of our cotton as much as 21 cents a pound above the price of others produced in the farm world.

We were not able to meet those prices because our loan, which was well below the cost of production in this country was putting a floor under our prices, and, as a result, our exports, at less than 2 million bales, were at their lowest point since World War II.

But that of course was not the whole story for cotton. We were facing imports of textiles and apparel products which were just flooding this country and putting our own textile mills out of business and robbing our domestic producers of their market here at home.

In short, the cotton industry, from the farmer to the textile manufacturer was in big trouble. We were up against some problems that we did not create, and against problems that we were not going to be able to handle on our own. Instead of competing with farmers in other countries, the American cottongrower was being forced to compete mostly with foreign governments.

Since most of the cotton grown outside the United States is produced in nonmarket countries, and more than 90 percent of it is heavily subsidized.

The new farm program helps us to deal with this crisis situation by reducing the U.S. cotton price to make them fully competitive both overseas as well as here at home. Our prices for delivery next season have dropped more than 50 percent and are among the lowest now in the world, and to help the industry adjust to these low prices, to get us through this transitional period, the bill does two things.

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[12] See p. 482 for the prepared statement of Mr. Booker.

First, it protects the U.S. cotton farmer's income through a flexible market loan and a system of target price and deficiency payments.

And second, the bill protects textile mills and cotton merchants who had inventories of higher priced cotton on hand when the new program took effect.

To keep them from being hit with huge inventory losses, and to avoid disruption of the whole industry, the program pays with Government-owned cotton stocks the difference between this season's high price and next season's world price. Mr. Chairman, the benefits of the new cotton program will accrue not just to the cotton industry but to the whole national economy.

Cotton exports are expected to at least triple during the program's first year, and expand even more in succeeding years, and this will, of course, mean a big boost to the national economy.

While the new program will not eliminate the foreign advantage of labor rates as low as 16 cents an hour in some areas, U.S. textile mills will become more competitive because under the new program they will be paying the same price for cotton that foreign mills are paying.

This should make them more competitive in overseas markets, too, and increased textile export sales will be another boost to our U.S. trade balance.

The program will reduce Governments stocks, which now amount to several million bales, and every time that a bale moves out of Government storage it saves the taxpayer about $40 in storage and interest costs each year.

Senator BOSCHWITZ. How much a bale?

Mr. BOOKER. About $40 a bale in storage and interest costs per year.

Senator BOSCHWITZ. How much is a bale worth, again, please?

Mr. BOOKER. How much is a bale worth? Well, based on today's world price, about 22½ cents a pound, and you have got about 500 pounds in a bale.

Senator BOSCHWITZ. A hundred and ten dollars?

Mr. BOOKER. Then you are talking about $110, $150. A bale is not worth as much as it used to be. Instead of having to cut production, our farmers will be able to grow more cotton for an expanding market, and this, in turn, will stimulate economic activity in cotton producing and processing areas.

It will also avoid shifts of highly fertile cotton land into wheat, corn, soybeans, and other crops, which also are in excess supply.

Mr. Chairman, the cotton program is working, and we urge you to resist, with all your might, any effort to dismantle the program because of concerns about front-end cost, or for other reasons.

The surest way to render the program ineffective and to increase its cost is to give our foreign competitors reason to question our resolve to keep the program in place.

Nobody, anywhere in the world, can grow cotton and even cover cost, much less make a profit at today's world prices, and we are confident that if we continue to meet the competition we are going to discourage foreign production. We are going to force, for the first time in recent history, the foreign world to share with us the responsibility of balancing world supply and demand. It is a question that we could not even get on international agendas before this new farm bill. This process has already begun. The going price for cotton outside the United States last year discouraged plantings in China and the southern hemisphere. Chinese acreage was down 25 percent in 1985, and southern hemisphere plantings were off 13 percent.

We have only a few figures so far for 1986, but Turkey apparently is down about 19 percent and Mexico down 47 percent.

These foreign acreage reductions, and our healthy sales for the new marketing year tell us the cotton program is working, and we are confident that if the new farm law is allowed to run its full 5-year course, cotton will again be a major contributor to the economy of this country.

So we would ask your help in seeing that it does. Thank you very much.

Senator BOSCHWITZ. I would say to my friend from Arkansas, that early on in the hearing, I made the comment that the items in our agriculture that are in trouble are those for which we have programs, whether it be cotton or rice, or feed grains, or wheat. They are the ones that are having the principal problems, not the commodities or items for which there are not programs.

One of the earlier witnesses, Dr. Paarlberg, pointed out about cotton, that during the 3 years of 1928—60 years ago—to 1930, the Agricultural Adjustment Administration made a survey of cotton and we were producing 14 million bales of cotton a year, more than the rest of the world combined; more than we are today as well. The rest of the world produced only 12 million bales.

Since then we have almost continuously held the price of cotton above the world level and restrained production. The latest data for crop year 1985-86 shows the United States producing 13 million bales. Sixty years ago it was 14. The rest of the world, 65 million bales. It used to be 12. So that we have shifted a lot of our opportunities abroad.

But we certainly have helped the cotton producer as we have helped the rice producers with the most recent farm bill. I thank you very much, Mr. Booker, and we now turn to our friend, Mr. Hall. Do you have prepared testimony, Mike?

Mr. HALL. Yes, I do, Senator. You have it in front of you.

Senator BOSCHWITZ. Do I have a copy of it?

Mr. HALL. You should. We delivered 75 to the hearing room.

Senator BOSCHWITZ. All right. Thank you.

STATEMENT OF MICHAEL HALL, EXECUTIVE VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. HALL. We appreciate your having this hearing today. I am going to try and summarize my statment, Senator, if I may, and just submit the printed copy for the record.[13]

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[13] See p. 452 for the prepared statement of Mr. Hall.

You have heard that corn is a problem commodity on numerous occasions this morning, and I would just like to stress several points I have in the statement. But before I do that, I would like to call your attention to the fact that in the 1979-80 season, the United States had just about 72 percent of world coarse grain trade, and that has now dropped down to 45 percent.

I am not going to get into that any more, because I would urge you to study the remarks that Dr. Brunthaver made here, because he laid out the situation far better than I can, being an economist and a genuine market analyst. I am the lobbyist that was referred to earlier.

But I think that Dr. Brunthaver has pointed out well, what has transpired in the world feed grain markets over the last 6, 7, 8 years, particularly with the EEC and other countries.

I only have one reservation about the potential that Dr. Brunthaver raised and that is the one he indicated as to PRC, in the event that they do go into a more modern livestock feeding operation.

Because that raises in my mind, too, the other grain-producing countries who have had such enormous increases in their acreage and/or yields off fixed acres, also see that same potential.

And unless there is adjustments in their basic income price support system, particularly the EEC, we could easily see a continuation of the increases in grain production and the subsidized exports that would again deny the United States from enjoying the potential, if it were to be manifest in terms of commercial demand in PRC.

So I just urge that we give that some thought, instead of thinking that it would just be an obvious thing. Several other points I would like to make.

In the letter inviting us up here, we were asked to talk about whether the farm bill of 1985 is competitive, and in the view of the National Corn Growers Association it is not yet, and that is the reason we urged, during the farm bill debate, and we still urge today that——

Senator **Boschwitz**. You urge what?

Mr. **Hall**. We urge the marketing loan be used for corn. If we have heard here this morning the success of the marketing loan for rice, for cotton—expensive we know—but the success and what it is going to do—is doing, going to do—why can we not use that for corn, the largest quantity of grain produced in this country, and where we have had the most unfair trading competition in world grain markets? Again, referring to what Dr. Brunthaver has said: "If we were to use the marketing loan for corn, we would have a more immediate opportunity of starting to regain lost market share, such as South Korea, that simply has been replaced by other buyers. Or an increased percentage share in the Japanese market, and making the cost of the Community's export restitution system extremely expensive, so if they want to continue their course, stay their course, they are going to have to pay an extremely high price to do it."

So, we think, when the question is asked, should we stay the course? Do we need to change the 1985 farm bill? Our answer in the Corn Growers Association is no, but we do need to implement the marketing loan so that we do not have to ask farmers to wait, wait, and wait, because we may not have the time to wait, under the political pressures that may come from the 5.5 billion bushels of corn stocks Dr. Brunthaver forecast, and all that we will create out in the Midwestern States.

So we think it would be wiser to implement that marketing loan now, Senator, and get through the pain of the expense, work off the stocks, give the proper signals to the other competitor countries that we are genuine, and we are real, and then have into place an effective marketing system for corn, when we do go to the negotiating table. Because if we do go into MTN negotiations, not with a very effective marketing arrangements for corn, what then can we put back on that table, in terms of asking the Community to roll back theirs, roll back their export subsidies, for instance?

And let's not forget, either, it is not the export subsidy system in the Community that is the root cause of our problem. It is their annual increases in farm price supports, that they constantly raise.

So, until we can get a handle through negotiations, and make the Community pay for their excessive grain production and subsidization, excessively, in the world markets, we need the marketing loan for corn.

Because when we speak of corn, we cannot overlook that we have to talk of the grains complex, as Dr. Brunthaver so well pointed out. That its increase of wheat in the Community, that it basically displaced the sizeable corn sales that we had in the 1970's.

I would just sort of conclude my comments, in trying to summarize my statement, that there are two underlying assumptions in the farm bill to make adjustments in Federal supports for farmers over time, and we have the target prices simply frozen for 3 years, and then it does start to adjust down the fourth, fifth year of the farm bill. Let's keep the bill as it is, and maybe some technical corrections, that later on we could discuss at another hearing. But using the marketing loan, while we have the commitment of having that income price stability at $3.03 per bushel for corn. As we apply the marketing loan, as we get into the international negotiations, as we demonstrate to the competitors that we are going to be back out there to regain the South Korean market.

And then, if you can get a handle on that, the extremely high levels of price support that you have around the world, maybe you cannot be faced again with set-asides in this country while the Canadians have record acreage and forecast record production. Thank you.

Senator BOSCHWITZ. The idea of a marketing loan is very appealing in certain regards, but you simultaneously want to keep the incentives to produce. Now, would you not think that the Europeans, and others, would say that you're paying these guys $3.03 a bushel, and then you are going to sell it on the—so you are really giving them an incentive to produce that stuff, and then you are going to nail us for the marketing loan?

Is that not in the form of an export subsidy? I mean, the same thing, in a way, that is happening with our friends in rice. That, you know, you turn it on and you say produce, $11.90, the target price, and then with $3.03 in the case of corn, and then you are going to take it all the way down. I mean, is that different than an export subsidy?

Mr. HALL. Precisely, except the system of the export subsidy in Europe is the buydown of the FOB offer price, basically, and that is going to benefit the foreign customer.

The marketing loan will have its primary benefit to the producer in this country. It would be through the producer payment, the forgiveness provision of that payback. And I point out, that the current intervention price for wheat, feed wheats, in the Community, is $5.43 per bushel. Now the comparable intervention price we have in this country is only $3.03 for corn. So we would be starting at a much lower level, and in terms of international trade negotiations, we should not focus on the margin of the export subsidy. The problem is the difference between the basic income price support in the Community and in the United States. So in effect it would be an export subsidy, but maybe that would get the Community's attention, and maybe the president of the council of ministers would react the same way as the Prime Minister of Australia has.

Senator PRYOR. Mr. Chairman, if I might just make one comment. I think it would be an appropriate point for the record. And that point is target prices. To achieve a marketing loan, for rice and cotton programs, one of the concessions that our rice and cotton farmers made was to accept a decline in target prices starting in 1987.

I want the record to indicate this. I do not think there are any other crops that have a reduction in target prices in crop year 1987.

Mr. HALL. The third year we have a decline on their target——

Senator BOSCHWITZ. Two percent.

Mr. HALL [continuing]. And we have another decline in the fourth and fifth year.

Senator PRYOR. In the corn program.

Mr. HALL. Yes, sir.

Senator PRYOR. Rice and cotton starts the second year, and yours is the third.

Mr. HALL. Yes, sir.

Senator BOSCHWITZ. And your second year decline is 5 and 5 and 5, isn't it?

Senator PRYOR. Yes.

Senator BOSCHWITZ. It goes down 5 percent a year.

Senator PRYOR. That is correct.

Senator BOSCHWITZ. And yours is stable, and then 2 and then 3. All right. Steve Gabbert. I have often seen you here in these halls.

STATEMENT OF STEPHEN J. GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION

Mr. GABBERT. Thank you, Mr. Chairman. I appreciate the opportunity to testify before the subcommittee. With your permission I would like to include my written testimony in the record and make a few summary comments.[14]

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[14] See p. 456 for the prepared statement of Mr. Gabbert.

Senator Boschwitz. I may leave a little early to go to a conference lunch, depending on how long you go, Steve. He does not have a conference lunch, but, please proceed.

Mr. Gabbert. Thank you very much. Rice is used to being last on the panel, since we have traditionally been considered a stepchild commodity.

Senator Boschwitz. We apologize to all of you. You have been very, very patient.

Mr. Gabbert. We will not mind if the chairman walks out on us. [Laughter.]

Mr. Chairman, as I mentioned earlier—while you were talking to Senator Pryor—I wanted to include my written statement in the record and make a few summary comments.

Senator Boschwitz. Yes. I heard.

Mr. Gabbert. Since you did not respond, I assumed that that you were in agreement.

Senator Boschwitz. Oh, surely.

Mr. Gabbert. Mr. Chairman, you might remember the Senate-House conference on the agriculture bill, which occurred in this very room late one night, when Senator Pryor gave a very eloquent speech about the marketing loan. Judging from the applause that followed—it brought the house down, and was probably one of the most stimulating speeches we heard—not that yours were not. I am sure yours were——

Senator Pryor. You can speak as long as you want to, Mr. Gabbert. [Laughter.]

Mr. Gabbert. But as you remember, Senator Pryor was recounting the situation that the rice industry faced. It was flat on its back. It was running at less than 50 percent of capacity. Exports for the 1985–86 marketing year were projected to be 50 percent less than 1980–81. We had come down a 4 year slide. Senator Pryor very eloquently stated that the rice industry was prepared to take the risk with a new concept, he said that we wanted to begin as soon as possible by applying it retroactively to the 1985 crop. The rice industry knew the power of the marketing loan and therefore was willing to be the prototype. The first commodity program out of the box.

Fortunately, the conferees agreed, and passed the marketing loan for rice.

Senator Boschwitz. You will recall that I spoke up——

Mr. Gabbert. I remember it very well.

Senator Boschwitz [continuing]. Because I thought at that point, for 1985, it would have been a very good concept, particularly, and I also thought that it was something that we should try, despite whatever reservations I might have.

Mr. Gabbert. We do remember your support and very highly appreciated it.

I did want to come here and report to you how it has been doing, realizing that this was a program that had to be implemented over a very short period of time and had to overcome some very significant bureaucratic hurdles. The USDA was placed in the position of announcing to the world what the prevailing world market price for rice was. For bureaucrats who are basically used to analyzing and evaluating, this was a very frightening task to assume. Additionally, there were also a number of foreign policy concerns that, as have been testified to this morning, were brought up. There was a concern on own part as to whether or not we would see a traditional Washington occurrence taking place. That is, an economic issue being held hostage to foreign policy considerations. I think all in all, the Department was able to carry out its task, to establish the procedures and provisions of the program.

Secretary Lyng went to bat for the program. His position has been that his responsibility was to implement the law; he was going to carry out the 1985 farm bill. Due to the foreign policy sensitivities of the rice provisions Secretary Lyng met with the President personally, to discuss the issue.

Fortunately, in this instance President Reagan came down on the side of the American farmer. I think that this position is one that the administration has not much credit for.

As far as the results of the Rice Marketing Loan Program are concerned, Senator, you might just look briefly at page 6 of my testimony. There is a table in there which I will just touch on briefly. This table is based upon the USDA's weekly report of shipped and unshipped export sales.

As you know, by law, sellers have to report their export sales to the Department of Agriculture. This table depicts actual shipments, and unshipped sales. It compares marketing years 1984 to 1985, during the August 1 to April 12 period. We can see that total sales are down 24 percent.

From the period April 13 to July 17, which is the last report we had, you can see the dramatic increase in exports. It is about 107 percent.

When you go down a little further, to the next line, you will notice that total sales that were made for the marketing year and were reported for the 1984-86 marketing year are 96,000 tons.

Under this same period reported in the 1985-86 marketing year, we have total sales of 252,000 tons—a 160-percent increase.

Overall, when you look at the period from the implementation of the marketing loan on April 15, to the present time, we have sold about 1 million tons of rice compared to last year's 400,000 tons. Export sales have doubled.

The evidence is overwhelming. The marketing loan is operating and working well. Another dramatic event that has taken place is the reduction in stocks. In June, the Department of Agriculture was projecting that CCC would end up with an inventory of about 71.7 million hundredweight. This would have been a record.

Now, they figure it is only going to be about 36 million hundredweight. So there has been a dramatic reduction in stocks in just over the last 60 days because of export sales.

Senator **Boschwitz**. Thirty-six million hundredweight?

Mr. **Gabbert**. Yes. What has taken place, is that forfeitures of the 1985 crop——

Senator **Boschwitz**. A half billion pounds?

Mr. **Gabbert**. Your math is much faster than mine. Since you ran a plywood business, you can probably compute it faster than I can, Senator.

If you look at the forfeitures of the 1985 crop, they were projected in June at 28 million hundredweight. It appears now that the most that will be forfeited out of the 1985 crop is about 10–15 million hundredweight. This is a significant reduction.

So, we have a dramatic reduction in stocks. Exports are moving. These are the objectives that we were trying to achieve in the marketing loan program. We are enthusiastically surprised and extremely pleased, that we were able to attain them as fast as we have been able to. These results demonstrate that the program works. It means that the rice industry is moving again. During speeches I have delivered in the last several months, I have sensed the mood of optimism among farmers, millers, and local businessmen. The entire marketing chain is excited. There is a pervading sense of optimism moving throughout the entire industry.

One area that I would like to specifically address is the foreign trade policy impact. I believe that this is probably one of the reasons why Mr. Lyman and I have been paired together at the witness table.

I must say that, in prefacing my remarks, I have been to Thailand over the past 13 years many, many times. I know personally a number of high-level Thai Government officials that have been involved in their Government's protest about the rice marketing loan. I have also met with their delegations numerous times.

I have never met Mr. Lyman, but only with representatives of the Thai Government. I am glad to see that an American is here fighting for the Thai farmers and the American businessmen in Thailand.

Prior to reviewing some of the points Mr. Lyman has made, I would like to point out, that we have attached to our statement a report that was issued by the U.S. Embassy in Bangkok toward the end of June.[15] It was written by the agricultural attache, Mr. Tom Slayton. He presents a very good evaluation of what the farm act's impact has really been. He does it in a very objective and factual way.

The decibel level of the Thais' protests have more to do with the recent Thai elections than with the farm act's impact. Thailand is governed by a coalition government. Thus, politics have obscured what the actual impact has been.

Mr. Lyman talks about perception. He is correct: perception is very important in Asia. However, when perception is clouded with misinformation and misperception, then I think perception takes on a reality of its own.

Mr. Slayton's report states that the impact of the Rice Marketing Loan Program has been minimal. He goes on to give the reasons why, carefully explaining exactly how the Thai rice market is made up.

I think what is happening is that the United States Rice Marketing Loan Program is being used as a scapegoat, and as an excuse by the Thai Government for why farm income is down.

When you look at Mr. Lyman's statement, his main thesis is not that the Thais have lost markets; he admits that they have expanded markets.

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[15] See p. 459 for the Slayton report.

He is not saying that their exports have declined. What he is saying is that prices are down, and that the U.S. Rice Marketing Loan Program is responsible because it has forced world prices down. This according to Mr. Lyman, is hurting the rice farmers in Thailand. It is important to put that concept in perspective by examining some articles I have here that were taken from newspapers in Thailand. You see from the headlines that the farm price issue has always been a very emotional issue in Thailand. The headlines blame: "Farmers to Meet on Rice Problems" "Rice Farmers Threatened by Low Prices" "Rice Millers Blame the Low Prices on Exporters."

You know, Senator, these articles were taken from newspapers, not within the last 6 months, but from October 1985, before the Rice Marketing Loan Program was even considered seriously by the Congress. A time when a lot of people had questions as to whether it would ever be implemented.

Here is a study from the Bank of Thailand issued in February 1985. It discusses the importance of trying to do something for farmers' low rice prices.

So, the issue of low farm prices in Thailand has been around for a long time; it is not a new phenomena that just resulted from the Rice Marketing Loan Program.

Senator BOSCHWITZ. It seems to have fallen out of bed since the——

Mr. GABBERT. I agree because of the politics that are involved. A lot of pressure has been put on the ruling segment of the coalition government to do something for farmers. It is like in the United States—the politicians suddenly discovered the farm crisis.

Senator BOSCHWITZ. And therefore because they discovered—normally, the reverse is true, though—they discover the farm crisis. The prices do not "fall out of bed." I mean——

Mr. GABBERT. Well, prices were already low. Even before the marketing loan had any impact at all. Here is another article that was taken from a July newspaper. It describes the growing confidence of the Thai Government about rice exports. The Government officials talk about 1986 exports running 11 percent ahead of last year. They discuss that there is a growing sense of optimism about the prospects for domestic and export prices.

Senator PRYOR. When is that dated?

Mr. GABBERT. It is July 1986; just a couple of weeks ago. This article quotes a high-level Government official. So I guess you start to wonder, really, where is reality, and not perception.

I think that is what we have to focus on: what is the reality of what is going on and what is the true impact. If you look on page 7 of my statement—I hate to have you shuffling through all these papers, but it is right under the other one right there.

Senator BOSCHWITZ. Perfectly all right.

Mr. GABBERT. On page 7 is a table that is published by the Food and Agricultural Organization of the United Nations. You can see that during the February–June 1986 period world prices declined initially, but have since stabilized. This is what the marketing loan has done: it has stabilized world rice prices, you can see from the graph where prices have started to increase.

I want to emphasize the point, that the Department of Agriculture with its world price announcements is following the world price. The Thais panicked in January and February, reduced their prices because they wanted to sell as much rice as they could. The United States followed them down. Then prices stabilized and now have started to increase.

So I think the marketing loan——

Senator BOSCHWITZ. It always happens that the price goes down in anticipation of a lower price. Like Dr. Paarlberg said, that if GM would announce now that its 1987 models were going to be priced $2,000 lower, then you would expect that either sales would stop, or there would have to be a decline in the present prices of 1986 models. That, to me, would seem to be what happened there.

Mr. GABBERT. I think it was a panic reaction. The Thais themselves brought the world market down.

Senator BOSCHWITZ. It is no different than what we see happening in wheat and corn, and other things.

Mr. GABBERT. Well, the point is though, that the prices have stabilized and have increased. That is important. It is important to everyone, to Thailand as well as to other rice exporting countries.

Another point that I want to make about Mr. Lyman's testimony: at the end he says, "Let's do something positive." He defines positive as, "Let's go back to an income transfer provision."

In other words, let's go back to the old program; let's return to the old program so that we can come back to a price premium of Thai rice over United States rice as this graph shows, so that we can be right back where we were.

So that we can be an industry that is sitting still, contracting, continuing to cut acreage, while the Thais continue to export. That is not going to happen. It is a very unrealistic position to take.

Senator, one other point I want to make, is that—and I think it was a statement you made in response to Mike Hall—and that is that we do have acreage limitations on rice this year. We have reduced acreage 35 percent. As you know, we do have a high target price relative to other commodities. But as Senator Pryor correctly pointed out, it is coming down faster than anybody else's. We took a bigger hit on target prices in the 1985 Farm Act as a trade off for the marketing loan. But we do have, again, a 35-percent acreage reduction for the 1986 crop. Last year it was 25 percent. I think that if the Thais were that concerned about low prices, then why did they not cut their acreage back, in order to stabilize prices?

We were the only country that voluntarily reduced rice acreage, holding a price umbrella over the world market. Those days are over. That is all I have to say at this time.

Senator BOSCHWITZ. As you recall, I pointed out that the Australians, and I was tempted to say as well as about rice, as I have mentioned, that nobody complained when we held the prices high, and the Australian ambassador said, "Well, you know, nobody could be expected to complain under those circumstances." Well, then——

Mr. GABBERT. Senator, just two points. There was a conference held in Bangkok last week hosted by Thailand at which the Australians were present. There were also a number of other countries present. They were the self-described aggrieved parties, who were getting together to see what they could do collectively about U.S. and EEC farm policies.

One of the meeting results was agreement that the agricultural issue be made a priority on the GATT agenda.

Senator BOSCHWITZ. Good.

Mr. GABBERT. Based upon what some other witnesses have said, this is a very positive outcome. If anything comes out of the 1985 farm bill, it may be to bring everybody to the negotiating table.

One final point I wanted to make was that it has been said that the Thais do not subsidize rice. This is not correct. We outlined about 12 instances of subsidizing in a countervailing duty petition filed with the Department of Commerce. The Department found in our favor. Even though it imposed only a small duty, the Department did affirm that the Thais are subsidizing rice production, processing, and exporting.

Senator BOSCHWITZ. I would like to ask Mr. Lyman to respond and then I really have to go, and I will leave the hearing in your hands, if I may.

Senator PRYOR. Before Mr. Lyman responds, I want you to hear this before you leave, Mr. Chairman, because it is about you. I want to make a statement about you, for the record, and then I look forward to Mr. Lyman's response.

Thinking of last year at this table, and going over, literally, hundreds of votes that we had in the committee itself, and during the conference, in the wee hours of many mornings, Senator Boschwitz and I sitting across the table from each other would vote alike, and on many occasions we would vote differently.

I think that when the concept of marketing loan came across this table about 1 year ago, I do not really know if Senator Boschwitz supported that concept or not.

I do not even recall his final votes on the actions that we took. But, during the course of this year, Senator Boschwitz has expressed a keen and abiding interest in following this new marketing loan concept to see if it is working, or not working. And I want you to know, Senator Boschwitz, since you do not come from a rice producing State, or a cotton producing State——

Senator BOSCHWITZ. Wild rice.

Senator PRYOR. Well, we get some of your wild rice for Christmas and we appreciate that. That we appreciate your interest and your concern in this new and innovative program.

And I think that you have not only raised some very legitimate questions about the marketing loan, but I also think your questions are being asked so that you are truly seeking to find out whether this new concept is working or not. I want you to know that we appreciate your interest.

I think a lot of people have been less openminded than yourself, those who might have read one or two articles that have been published, and said, "Oh, my goodness, this thing is too expensive," or, "This isn't working," or "This is damaging our relationship with a great friend like Thailand."

I want to thank you for your openmindedness and, certainly, for having this hearing today. I did not mean to take Mr. Lyman's time but I wanted to compliment the chairman.

Senator **Boschwitz**. Well, that is very nice of you to say, Senator, and I appreciate it. Would you respond, Mr. Lyman.

Mr. **Lyman**. Thank you, Mr. Chairman.

Senator **Boschwitz**. Maybe we should have put a chair in between you.

Mr. **Lyman**. May I just preface my remarks with just one or two comments. I am not here representing the Thai Government or the Thai farmer. I am representing American business in Thailand, and trying to express the concern that the chamber of commerce feels is—in the relationship between Thailand and the United States, which can affect Thai-American relations, which can affect American investments and trade with Thailand.

Second, being the president of the American chamber of commerce, I represent American business, whether they are members or whether they are not members, and hence, as far as Thailand is concerned, I also would represent the American rice farmer, the American rice processor and miller, and American rice traders and exporters.

So, Mr. Gabbert, you are not going to get me to do battle with you, because, in effect, I am on your side. I am also trying to look at the realities of things. The Thais are not making a scapegoat of the Farm Act.

And let me just approach one question, which is the subsidies. I know this has been a central focus of some of your arguments and some of your discussions over the last few months. And at the same time, I would also like to correct some numbers that I quoted a little bit earlier in the testimony. For the Thai farmer, his current farmgate price for his paddy, or his rough rice, is $84.83. For the American subsidized rice farmer, his current price for paddy is $261.80.

Now if there are subsidies, it sure does not bring the Thai farmer's paddy price anywhere near the American farmer's paddy price. In effect the American paddy is—the American farmer gets three times what the Thai farmer gets for his paddy.

The Thai farmer, as we see it, when we look at it, is not subsidized; certainly no where near in the context of what a target price is, a deficiency payment, a marketing loan, et cetera.

The Thai farmer cannot really borrow from the government. The Thai farmer has to borrow from commercial sources, and he is not really considered that good a commercial risk, so he also has to go out, because he still needs money, and he borrows in the off-the-street market. He is paying 7 percent per month for that money. That is an average, of course.

All right. Mr. Slayton's report. I know Tom and know Tom well, and I have worked with him over the years. As a matter of fact, the chamber of commerce gave him a certificate of appreciation just before we left, and I have one in my bag for his wife, Sherry Slayton. His report is well stated. It is about 6 months too late in terms of the relationship, but he does state his case well. There is another side to the coin, and that is I believe in appendix 8 of my formal testimony, and it appeared in the Thai newspapers on July 24.

It is entitled "More on the Farm Act, One Response to the Slayton Report." I do not know who the author is, but I think as you read through it, you will see that it is a fairly well thought out piece.

Now it is not a question of who speaks truth, because I think both sides are equally convinced that what they say is the truth. Again, let me go back to the problems of, perception is reality, not the other way around, and you cannot deny what has happened—if you take a look at the appendix 12. That is the farmgate prices that is the dotted line.

And I drew a line on my report at what the Thai Government says is the production cost for the Thai farmer. That is 2,820 Baht per ton, farmgate price.

Anything below that and the Thai farmer is losing his shirt. Everything was going fine, there are seasonal adjustments going up and down, until we get to around November of last year, and then just slipped right off the edge.

That can only have come from the Farm Act, and from anticipation of what the Farm Act would and did do.

Senator PRYOR [presiding]. Let me interrupt. We did not have the Farm Act completed until late in December. In fact, the Farm Act was not signed by the President until almost Christmas Eve, the 23d. So, I do not know if your point is well-taken about what has caused the decline.

Mr. LYMAN. Well, there was the anticipation of it, just as the chairman has pointed out, that when there is a knowledge that a piece of legislation, or a new product will come out which will affect prices, things are going—the price is going to drop until they finally see what is going to happen.

I think it is a good thing to support the American rice farmer. If he needs it, then there should be support for him. We do not question that at all, do not oppose that at all, and I do not think the Thai Government would.

As I mentioned earlier in my testimony, I know, having talked to a number of Thai rice farmers, they wish they had the same kind of programs. But when you look at the numbers, and the American rice farmer is getting three times what the Thai rice farmer is——

Senator PRYOR. Well, don't you think there is a difference in the number of acres, like 5 acres versus 200 and like land costs, machinery costs?

Mr. LYMAN. Sure.

Senator PRYOR. The financing costs that our farmers have to endure to plant and harvest rice? With all due respect, I think you have oversimplified your statement, and you may not have intended it that way, but we are really talking about very, very different economic structures.

Mr. LYMAN. Yes, sir, but we still have rice going into the world markets.

Senator PRYOR. And speaking of that, may I ask you a question? If the rest of the panel wants to add anything now that Senator Boschwitz is gone—I will just carry on for a few moments.

But, I cannot understand why Thailand, and by the way, Thailand is a wonderful friend and ally of this country however, I do not believe we did anything, intentionally, at this table last year, to hurt that relationship with you or with the Australians. We visited with both of you about this matter. And those in New Zealand, and others.

But I do not see how you could make the point, and make it stick, that the United States is driving rice prices lower. We follow in the marketing loan. In fact we follow by a week, in calculating our world rice price.

When the largest exporter of rice, Thailand, sets a price that determines the world market price to a very, very large extent, not necessarily what the United States is doing.

And I really think that that point ought to be made very, very clear. The United States is not setting these low prices. Our farmers want high prices. They do not want low prices. And I think that we are seeing as a result, looking at Mr. Gabbert's table—that we are seeing a stabilization of prices, and that is one thing that the marketing loan concept was intended to do, to eventually stabilize these very, very volatile rice prices, and markets. Now do you think that the United States sets the prices for world rice?

Mr. **Lyman**. In a word, yes. It is not intended. It is not what the law says. It is not what USDA believes, when they put together their numbers that drop out once a week, but, in the world market, that is what happens.

Senator **Pryor**. Maybe Mr. Gabbert would——

Mr. **Gabbert**. United States rice prices are set at a premium to Thai prices. That premium, as Mr. Lyman indicated, is somewhere in the neighborhood of around $40 a ton. As the FAO chart in my statement shows, world prices are going up. The United States really has not taken any action to materially impaction the world rice price. World rice prices are moving up because of demand, not because of the levels the United States sets its price. It is demand from Brazil.

I would like to comment on the rice farmer's situation in Thailand. As you so well pointed out, it is simplistic to compare the U.S. rice farmer and the rice farmer in Thailand.

The rice farmer in Thailand would have anywhere from three to five acres.

Mr. **Lyman**. About ten to eleven, average.

Mr. **Gabbert**. That's correct. I was thinking of hectares. The Thai rice farmer has a small hand-driven tractor that he walks behind. He uses family labor. He is not organized as well as the American farmer. There are co-ops in Thailand, but they are service co-ops, not marketing co-ops—that have little economic and political clout.

There is another segment in the rice industry in Thailand that we do not have in the United States. It is an individual called the paddy merchant.

The paddy merchant buys rice from the Thai farmer. He loans him money. He is the farmer's financier.

Historically, it is the paddy merchant who has kept the farmer under foot, because Thai rice farmers are not well organized. They do not understand how to organize themselves.

This is a structural problem in Thailand. It is an old established tradition and one of the reasons why Thai rice farmers have low prices.

The cut, or the percentage that the farmer receives from the value of his rice sold on the export market is extremely small. The people that are making a good part of the money are not on the farming end. There are other reasons why farm prices are down in Thailand. It is not simple, as Mr. Lyman would want to portray. The United States wants to see world rice market prices increase. We do not want to intentionally drive the world market down. That is not our objective.

We know it is not the U.S. Government's objective. As President Reagan stated so well in his letter to Prime Minister Prem last week: It is the U.S. Government's intention to follow the world rice market, not to set it.

When you look at the last 4 years, when Thailand sold rice at $200 a ton less than the United States. It was of the same quality. The Thais have done a very good job of upgrading their quality. They moved in and captured a number of our markets and sold rice at $200 a ton less than we did.

You wonder about their whole pricing logic and the economy behind such a large price spread. In a meeting with the Thai minister of commerce and other high-level Government officials over the past 4 years, we pointed out that they were losing about $250 to $300 million in foreign exchange annually, cash which Thailand has needed very badly over the last 4 years.

Senator PRYOR. The mysterious thing to us, is why your prices were so low. Maybe we could look at ways that you would increase your prices, so that we could increase our prices. I hope we can both think about that, rather than all of us decreasing prices all the time.

Mr. LYMAN. That has been my philosophy, sir, as well, is to push that price up. But if you take a look at appendix No. 19, you will see what has been happening to the rice prices since 1982, the Thai and American rice prices. As I understand, and I do not hold myself out as a rice economist or an agricultural economist, or, for that matter, an economist at all—that the great gap between 1981, particularly, and 1985, between Thai and American rice prices, is due to the 1981 Farm Act which kept the American rice prices so high, that in effect the American rice farmer could not compete and something had to be done for him in 1985.

Mr. GABBERT. Thailand set its prices at levels they wanted to sell their rice. It chose to drive the world market down. Thailand chose to sell rice at $200 per ton less. The $200 a ton gap had nothing to do with the 1981 Farm Act. All the 1981 legislation did was set U.S. prices at a very high level and made our rice noncompetitive.

At that point, the Thais chose to sell their rice at $200 a ton less over a 4-year period. They drove world market prices down.

Mr. LYMAN. Well, let me indicate one thing. I think in both the United States and in Thailand, Thailand in particular, the Government does not control the price of rice, in terms of its sale in overseas markets. That is done by the what? The 80 to 100 rice traders, and, the Government will tell you, they do not have any control over the rice traders.

For that matter, the domestic prices were held down by heavy taxation on rice exports. So that is also part of the reason why the prices were dropping.

Mr. GABBERT. The 80 to 100 rice exporters are holding prices down. Thai rice farmers ought to be looking to their exporters and not to the Rice Marketing Loan Program in the United States.

Senator PRYOR. I got to the hearing late. I do not know if Mr. Slayton's full statement, or the text of his report has been placed in the record. If it has not, I would like to ask unanimous consent that it be placed in the record.[16]

I think we could probably beat this issue around for another two or three hours, however are there any more points any one would like to make?

Mr. LYMAN. Senator, I was asked to stay—and not necessarily this moment—but to stay and to talk with you and your staff, and of course Senator Boschwitz and his staff, with USDA. And may I say, I will stay as long as necessary to do whatever I can to assist in finding a solution to this problem.

Senator PRYOR. Well, we appreciate that very much, and I would just suggest that my aide, Mr. Robertson, would be glad to visit with you and I can only assume that Mr. Gabbert and some of his people might also be available. I do not know what their specific plans are for the afternoon, but we appreciate that offer very much.

Once again, when the marketing loan was discussed at this table last year, it was discussed as a pilot program of experimental means and purposes in the area of cotton and rice. We were trying to regain some of the markets that we have lost, and to once again becoming competitors in our international markets.

It was in no way intended to be predatory, as it has so often been described. I would like to again thank you for coming this morning.

I am also very pleased that we are going to finally see some agricultural topics on the agenda at some of our upcoming meetings regarding international trade.

We have been unable to get agriculture on the agenda, and now we have. I think that is very healthy.

Mr. HALL. You put the marketing loan in place for grains, you would certainly get it on the agenda.

Senator PRYOR. I spoke last January, I might say, to our friend from the American Chamber of Commerce in Thailand, to about 600 or 700 rice farmers back in Arkansas, before the new program had started.

And the friend of mine, introducing me, gave me a very glowing introduction as "father of the marketing loan" with Senator Cochran, and I accepted all those accolades with great trepidation.

And I said one year from now, if you will invite me back, I might accept a few accolades, or, I might be coming back to my public hanging, because this program may not work. But I think it will, and I think it is beginning to work, if we give it some time.

Oftentimes we start on a program, an agriculture program, and then we change it in midstream.

We never sold this as a program that was going to turn our industry around overnight. It is a 2-, 3-, or possibly 5-year proposition, and we are monitoring it very closely.

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[16] See p. 459 for the Slayton report.

And where we do see pitfalls or problems, I can only assume that minor adjustments will be made.

For example, our Secretary of Agriculture has a lot of discretionary authority and I hope that we all will continue to try to make this program work and, that we will continue talking with our friends like Thailand, and others, and that hopefully we can once again find a stabilization in this particular area.

Any final comments?

[No response.]

Senator **PRYOR**. I have a statement here from Senator McConnell that I would like to submit for the record.[17]

Thank you all very much. The meeting is adjourned.

[Whereupon, at 1:35 p.m., the subcommittee adjourned, to reconvene at 9:45 a.m., Tuesday, August 5, 1986, in room SR-332, Russell Senate Office Building.]

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[17] See p. 408 for the prepared statement of Senator McConnell.

PREPARING FOR THE GATT: A REVIEW OF AGRICULTURAL TRADE ISSUES

Prospects for Agriculture in the GATT Negotiations

TUESDAY, AUGUST 5, 1986

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:46 a.m., in room SR-332, Russell Senate Office Building, Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senators Boschwitz, Wilson, McConnell, Hawkins, Dixon, Heflin, and Zorinsky.

Also present: Senator Melcher.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. My apologies for being late. I had 300 Lutheran kids that I had to talk to in the Cannon Building, and they had trouble getting by the guards. So I got delayed.

We are here in the last of a series of hearings, and we probably will renew the hearings after the GATT round is completed. This is a hearing that has to do with the prospects for agriculture in the GATT negotiations.

The GATT negotiations, in truth, are really the only game in town, as they have often been referred to. And in the event that our negotiators can get some type of a standstill agreement, which should not be too difficult, so that barriers to trade and subsidies to trade will not be increased over the coming years.

I think that we will have started the process from where we can negotiate and come to a more reasonable understanding.

In most other areas of trade, the GATT negotiations have been more successful, and barriers and tariffs have come down. Agriculture is probably the most protected element in world trade, and this country is among those that protects its markets; but while we often point at other countries, we have some of our own internal problems that we have to deal with.

Agriculture is perhaps the best organized political group of any of the trading groups and, as a result, gets a little more action, a little more protection, a little more activity than do other elements of world trade.

It is extraordinarily important for the future of American agriculture and I think for the future of world trade in agriculture that barriers are removed, that subsidies are reduced or eliminated. And those subsidies not only are with respect to shipments themselves or the exports themselves, but the subsidies with respect to production.

Certainly, the largest part of the problem in agriculture has to do with overproduction, at least presently. And we, on the one hand, come with a very low loan rate; on the other hand, we come with a much higher target price. We encourage production with the target price; on the other hand, we are saying with a low loan rate we want to regain the share of market that we had in the world.

Agriculture just is a continual source of amazement, and it changes so very rapidly. I have told the story more than once about the Secretary of Agriculture Dick Lyng who arrived in Washington as the Deputy Secretary in the winter of 1980 along with Bill Lesher, who is the Assistant Secretary for Economics, and on Lesher's desk was a 150-page study made by his predecessor under the Carter administration. It shared the common view held by both sides of the aisle of how can we produce enough to meet the demand. How can we produce to meet the burgeoning demand which, in the seventies, rose at 3½ percent a year while production rose only at 2.5 or 2.6 percent a year, year after year. And so the fence row to fence row philosophy continued and production in this country grew, and 2 years later, in the winter of 1982–83, we were wondering what to do with the surpluses.

We had what was remembered so well as the PIK Program; in order to get rid of the surplus, take large amounts of land out of production. Eighty-three million acres were taken out of production that year under PIK; 60 million acres, on the other hand, were planted in the rest of the world during that year. And those acres are still being planted. The problems of agriculture in more recent days are well known to us all.

No question about the fact that a large part of the solution of the problem that we have in Minnesota, Nebraska, Montana, and other States is the regaining of our position in world trade. There are a number of provisions in the 1985 farm bill. Many maintain that all of those provisions are not being aggressively pursued as they should. I would share that opinion in some instances and hope that the administration—and have made my view known to the administration that we should, indeed, pursue actively the world market.

I see on our list this morning that we have the Honorable Alan Woods, the Deputy U.S. Trade Representative. Clayton Yeutter and I spoke yesterday. He is unable to be here inasmuch as the trade bill in the House requires his attention, and he has promised to come back at a later date after the GATT round of negotiations.

Also the Under Secretary of Agriculture, Dan Amstutz, is here, and we discussed many of these problems last night.

Dan, why do not you and Mr. Woods come forward. After we have them as a panel, we will then go to Dale Hathaway and Fred Sanderson, both of whom are well known in the areas of GATT negotiations. I happened to read papers by both of them recently, long papers. They dealt with the beginnings of GATT, and interestingly, they pointed out that many of the things that are now bedeviling us in GATT were things that we insisted on at the time of the Treaty of Rome, at the time of the formulation of GATT. So our record is not entirely sterling.

After that, we will have Mr. Saylor and Mr. Heron, but we welcome you, Mr. Woods, and Secretary Amstutz, and I turn now to Senator Zorinsky from Nebraska.

Do you have an opening statement?

Senator ZORINSKY. Mr. Chairman, I ask that my prepared statement be placed in the record.[1]

Senator BOSCHWITZ. Certainly.

I see Senator Melcher. Do you have an opening statement that you wish to make?

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator MELCHER. Yes; I do, Mr. Chairman. Thank you.[2]

There are a variety of U.S. agricultural trade programs. Several types of Food for Peace programs are both building blocks for developing trade and tools for humanitarian food assistance as foreign policy. These must be used simultaneously with regular cash sales to those countries that do have cash. This policy has been used successfully for a generation, but not now.

When the administration took over, the overall trade balance was about even and you had a healthy trade balance in the black on U.S. agricultural exports. That has deteriorated seriously. One of the remarks the President made was, "Let's save the wheat and export the farmers."

That type of thinking seems to have dominated the policy that has been developed on agriculture trade.

With the large quantities of stocks that we hold, the price that the United States sets in sales of wheat or corn or soybeans immediately becomes the world price. Earlier we drove the price of rice and cotton downward under what is known as the Marketing Loan Program. The sales of wheat earlier this year to North African countries on export enhancement and reduced prices caused France to lower the price of their wheat in sales to Russia and China. China promptly refused to purchase any wheat from us unless we met the lower world price which we had in fact established by the sales to the North African countries.

We might say is not this the way you play the game in the big world of trade? Or is this not the game plan that was laid out in the 1985 farm bill?

No; the bill is more comprehensive than what the administration has done.

The bill emphasized the need for a balanced approach with more emphasis on assisting developing countries with food so we could build permanent bridges of trade for the future. In the bill we set minimum levels of Public Law 480 and section 416 and section 108. These are Food for Peace programs which are designed to develop future trade opportunities with four score of developing countries.

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[1] See p. 494 for the prepared statement of Senator Zorinsky.

[2] See p. 495 for the prepared statement of Senator Melcher.

The population of those countries ranges from just under 1 million up to the 800 million people of India. The minimum levels were mandated with strong admonishment that those were only minimums and that the State and Agriculture Departments should double or quadruple the use of these programs.

While the farm bill represented the views of the President's own Task Force on Agricultural Trade and Food Assistance, the President's smart remark about exporting farmers and saving the wheat set the policy. The Agriculture and State Departments followed the line that there were really no big agricultural trade problems—they only needed minor adjustments that would correct themselves when the dollar came down. The dollar is down, and the four score developing countries do not have the cash. If they are going to benefit from U.S. abundance, it will have to be through humanitarian trade building programs.

The facts are startling. The results in this country on agricultural producers and agribusiness have been lamented by Congress. There are going to be political reactions to all this. The needs are here as well as abroad. We cannot ignore the Harvard Physicians Survey that indicated that perhaps 20 million Americans are undernourished. Somehow, we are not successful in our food programs to reach all of our own people.

For those people abroad, it is incomprehensible to understand why this administration claims there is no need for food among the 80 developing countries. Even when Congress mandates food assistance and points the direction, AID Director Peter McPherson ignores it. He finds all Africans well fed.

Last week, I believe, his counterpart, Foreign Agricultural Service Director Tom Kay said to us, speaking about Africans, "We have crammed so much food down their gullets that it rots."

But the Food and Agricultural Organization has documented a shortfall of wheat this year of almost 2 million metric tons in those African countries south of the Sahara. That list does not even include Nigeria, although half of Nigeria's 100 million people apparently subsist on less than an adequate diet. We do not have a meaningful food arrangement with Nigeria due to some peculiar red tape with which the State Department ensnarls itself. Although wheat is generally consumed throughout Africa, the average per capita consumption in 40 sub-Saharan countries is less than one-fourth of the wheat we consume here in the United States per capita and only one-third the per capita consumption of Central America or India. I do not believe anyone has accused them or rated them as being overfed in those countries. To add to that, the locust and grasshopper infestation threatens this year's wheat and other cereal production in several parts of Africa.

This loss of trade that we have had due to the administration's agricultural policy is a catastrophe for agricultural producers, rural America and agribusiness. It not only severely damages the United States, but increasingly damages our foreign policy because it ignores the food needs of 2 billion people living in four score of countries. The administration has been given the backing of the Congress, the law, and the public sentiment to broaden agricultural trade policies, including the Food for Peace building block, trade provisions, and humanitarian relief. We have given all that to the administration. The question is: Why not use it?

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you, Senator. I found your statement very interesting, as always. I would only say that the President's remark about exporting farmers instead of wheat was said at a roast, I believe.

Senator MELCHER. Pardon me?

Senator BOSCHWITZ. It was said at a roast, and perhaps———

Senator MELCHER. At a roast?

Senator BOSCHWITZ. At a roast.

Senator MELCHER. It sure roasted a lot of people.

Senator BOSCHWITZ. And while it might have best been left unsaid, it nevertheless should be taken, Senator, in the context in which it was stated.

Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you very much, Mr. Chairman.[3]

Since this is the fifth of these hearings, I am compelled for the fifth time to compliment the chairman on having exercised not only foresight, but I think a great deal of care in arranging these five hearings. They have been not only timely, but distinctly informative and relevant, and have developed a number of provocative as well as useful facts.

Today's hearing is, I think, properly focused on the upcoming round of GATT negotiations and what we can hope to expect from them. Clearly, we have great need for those negotiations to develop some remedies that are not now available to the American farmer and the American agricultural exporter.

The most obvious of these, perhaps, Mr. Chairman, reiterated in the charming discussion which you and I held for about 2 hours with Sir Roy Denman was the need for the definition of an illegal subsidy that currently exists to be changed. Hopefully the new multinational round in Uruguay will begin the process for a new definition of what constitutes an illegal settlement.

As it is, the participating countries now have to adopt a definition. The current definition is absurd. Currently prohibited under GATT are only those subsidies which allow the exporting nations to acquire an inequitable share of the world market. Well, that is like beauty as perceived in the eye of the beholder. I think that it is absolutely absurd for us to continue operating under that kind of a definition; as loose as it is, it is no standard at all.

Agreements reached in this next multinational round must also result in greater market access for American agricultural exporters. We need only look at the most recent statistics, this time an historic first, to learn that we have become a net importer of agricultural products in this country. That is, I think, shocking to all of us. The explanation, in large measure, has to do with the fact that our trading partners have found not only a profitable market here, but an open market. We afford liberal access to our trading partners. We think it benefits the American consumer. We also think that should be a two-way proposition, that there should be reciprocity. Instead, what we have found is diminishing access to foreign markets, and that is not a tolerable situation.

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[3] See p. 497 for the prepared statement of Senator Wilson.

Our negotiators who go to Uruguay, who go to Montevideo, need to adopt uniform standards for imposing phytosanitary restrictions and other technical barriers to trade. At the last hearing, Mr. Chairman, I submitted for the record the recent study completed by the California World Trade Commission which documents the great ingenuity and remarkable imagination exercised by our trading partners in erecting nontariff barriers which have effectively and unfairly shut us out of the markets, particularly in Pacific Rim nations.

Finally, Mr. Chairman, this round must put some teeth into the dispute settlement mechanism. Once again, as with the definition of subsidies, we are dealing with an absurd situation. Currently, an offending nation—most notably as an example, the European Economic Community in the case of the citrus dispute—can block the adoption of an unfavorable finding and the imposition of penalties that would flow from that finding simply by exercising a unilateral veto, though they are the offending party. It is akin to requiring that a criminal defendant in a U.S. prosecution, though clearly found guilty, concur with the prosecutor in the assessment of his guilt before the judge can impose sentence.

Now, as long as GATT continues to allow the offending nation to thwart whatever machinery it has for providing a remedy, there is no remedy. There is no dispute mechanism worthy of the name, and that is also not a tolerable situation.

Mr. Chairman, I will just say that I think that we have been patient to a fault with our trading partners and that we can no longer afford to be so. It is unfair to the American farmer and ultimately will be unfair to the American consumer. We can preach and practice free trade, but not if it is to be a unilateral luxury in which a diminishing number of American participants are allowed to participate.

So, I commend you. I know how strongly you feel about the matter. I do have some questions for the witnesses, and I am delighted that they are here. They have a very important role.

Incidentally, I wish to not at all parenthetically commend the U.S. Trade Representative and the Department of Agriculture. I think that there is dawning of a new era—at least I am encouraged to believe so. I think that some light is visible, and in particular, the aggressive representation by Ambassador Yeutter and the very substantial support that he has had from Secretary Lyng I think are a change and a change for the better. I think that in interagency disputes they, along with Secretary Baldrige, are beginning to win some, and that is not only encouraging, it is vital.

I happen to spend a great deal of my time when I am not with the members of this committee with Senator Dixon and another committee upon which he and I serve, the Armed Services Committee. We are sympathetic to the concerns of the Secretary of State and Secretary of Defense about maintaining the strength of our alliances. But having spent a great deal of time worrying about that situation and being encouraged about it, I must say that I do not think the strength of those alliances depends on our being Uncle Sap.

I do not think that we need to unilaterally give way in every situation in which we find ourselves the victim of less than reciprocity, and in most cases distinctly, clearly, unfair trading practices.

Thank you.

Senator BOSCHWITZ. Thank you, Senator Wilson. I thank you for that statement.

Senator Dixon, do you have an opening statement?

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Senator DIXON. Well, Mr. Chairman, I want to congratulate my colleague from California on the very thoughtful statement he has just made. I agree with everything he said. It is an excellent presentation—in a very short form—of the frustration that most of us feel in this and other committees where we come into conflict with these foreign policies which are, I think, in the long run harmful to the interests of our country. I think it was well put by the distinguished Senator from California.

I want to also share his warm feelings for the excellent hearings you have held, Mr. Chairman. I think they have been very helpful to all members of the committee.

As you know, I have spoken on the Senate floor and in this committee in recent weeks about the worsening prospects for U.S. agricultural trade, and I am pleased that the committee is meeting again to discuss this issue of great importance to my home State of Illinois and the entire country.

For the second month in a row, foreign agricultural imports exceeded U.S. agricultural exports, as you know, Mr. Chairman. Our agricultural trade deficit in May exceeded $348 million. The figure for June is approximately $72.1 million.

As ranking member of the Subcommittee on Foreign Agricultural Policy, I attended a series of hearings on the agricultural trade issues. In our most recent hearing, I questioned our witnesses, and the chairman was there, about the possibilities of expanding our agricultural exports. The answer they gave me was unanimous. While we work to expand our agricultural exports, our surplus will remain. We must take additional steps, in my view, to alleviate the grain storage crisis.

Last Friday, the Secretary of Agriculture announced an export initiative which would permit the Soviet Union to purchase up to 4 million tons of wheat through the end of this fiscal year.

Mr. Chairman, I would like to ask the administration what about corn? In Illinois, in the Midwest, we face a serious storage crisis. We have no place to store our corn.

At this time it is hard to believe that the Department would announce an export initiative on wheat and not on corn. Our trading partners can now just sit back and wait for the price of corn to drop before they make purchases. We need to act now.

Illinois has at least 120 million bushels of corn with no place to store it. What about corn, Mr. Chairman? What about Illinois? What about Iowa? What about Indiana?

The top three corn-producing States have no place to store their grain, and our farmers are suffering.

I hope our witnesses from the administration will address their remarks to respond to these concerns. I thank the Chair.

Senator BOSCHWITZ. Senator Hawkins.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Senator HAWKINS. Once again, I am pleased, Senator Boschwitz, that you are chairing these continuing hearings in preparation for the next round of GATT. We are all concerned, and I believe now outraged at the predatory practices of many of our trading partners. I think that Senators Wilson and Dixon and all of us have great frustration.

Before we begin to discuss the specific goals for the United States agriculture during the next round, I think we need to know if indeed agriculture will even be on the agenda. I read that there is no guarantee that agriculture will be on the agenda, despite the insistence of the Reagan administration that it be included. I then read with interest of Mr. Woods, who is with us today, on page 3, "For the past 7 months, we have been working with our trading partners and GATT to develop an ambitious, comprehensive agenda for new multilateral trade negotiations." And the bottom sentence, "One of the key outstanding issues is the treatment of agriculture—a subject which, from our perspective, simply must be included in the negotiations in a comprehensive way." Good statement.

Then look at the next paragraph. "I am not particularly concerned about this situation. We are all well aware of the political sensitivities of agriculture trade, and it is not surprising that the technical level negotiators in Geneva were unable to resolve what is, in essence, a political problem."

I do not know a more political place in the world than the U.S. Senate. And Mr. Woods says, "I am confident, however, that when I join the trade ministers of the 92 GATT countries during the week of September 15 in Punta del Este, Uruguay, we will be able to take the necessary political decisions to launch the new round and include trade in agriculture on the agenda."

I would just like to ask that you as chairman, who will be remaining during the entire time, and the rest of us that have to run in and out like we do to many other hearings today, could ask for me and for other Senators what can this political body do to make sure that our representative have the ammunition needed to make sure that we have agriculture on the agenda.

I think that sums it up. I have a statement for the record,[4] but I have a lot of other questions, too, that can be asked at the right time. But I just thought you should, if you will be so kind as to pull up that particular statement and find out for us as a body what does this political body need to do to help our representatives when they go to the table.

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[4] See p. 499 for the prepared statement of Senator Hawkins.

Senator BOSCHWITZ. I will do so, Senator. Now, I turn to Senator Heflin.

Senator HEFLIN. Mr. Chairman, I will submit my statement for the record [5] in order to save time since my cameras are not here. [Laughter.]

Senator BOSCHWITZ. That is too bad. They are getting on your good side, right? It is a short statement, I notice. Go right ahead.

When your cameras do arrive, Senator, we will put this time in the bank so that you can expand and have a few extra moments at that time.

Senator HEFLIN. That will be good. Thank you.

Senator BOSCHWITZ. We appreciate your being here. We appreciate the good attendance that we have had, and now we will turn to our first witnesses, Under Secretary Amstutz and then Mr. Woods.

STATEMENT OF HON. DANIEL G. AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Secretary AMSTUTZ. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to discuss with you the upcoming round of multilateral trade negotiations in the General Agreement on Tariffs and Trade.

At the Tokyo economic summit in May, leaders of the seven major industrialized nations reaffirmed their commitment to halt and reverse protectionism, and to reduce and dismantle trade restrictions. The leaders fully committed themselves to the preparatory work on a new trade round scheduled to be launched in September under the GATT.

Since its inception at the end of World War II, the GATT has contributed significantly to the expansion of world trade through its efforts to reduce tariffs and other trade restrictive measures throughout the world.

This mission has been accomplished principally through a series of multilateral trade negotiations. To date, there have been seven rounds of negotiations. The first was in 1948 and the most recent round was concluded in 1979. The earlier rounds dealt almost exclusively with tariff reductions, but later rounds also focused on GATT rules regarding nontariff barriers to trade.

Now nearly 40 years old, GATT needs to be overhauled so its procedures and rules conform to the current needs of the international trading community. Reaching agreement on reform, however, is no easy matter—particularly with a GATT membership of 91 countries representing over four-fifths of world trade.

While many nations have an important stake in correcting the weaknesses of the present international trading system, they are still reluctant to make changes because of an overriding concern that international trading rules will prevent them from carrying out other national objectives.

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[5] See p. 500 for the prepared statement of Senator Heflin.

Nevertheless, when the new round of multilateral negotiations opens next month in Punta del Este, Uruguay, most trading countries—not just the United States—are in agreement that agriculture will be one of the most important subjects on the agenda.

Let me add here, Mr. Chairman, for the record in response to Senator Hawkins' question. There will be a new round commencing in Punta del Este, and there would not be a new round if agriculture was not a major part of it. I hope I am clear on that; that agriculture will most definitely be a major segment of this new round.

There are good reasons for agriculture's prominence. Production of grains and other commodities continues to outpace consumption. Many countries have maintained high production incentives in spite of mounting stocks. Yields are increasing, while world trade is declining. And it is clear, because of the Food Security Act of 1985, that the United States will have aggressive export prices. The costs of agricultural support are climbing everywhere. Virtually all countries are convinced that something must be done.

Obviously, there are major differences of opinion on what solutions to adopt. The United States believes that unrealistic incentives and protective barriers should be removed, allowing suppliers with the greatest comparative advantage to prevail. The Europeans are in the process of reducing incentives, but they continue to want to use export subsidies as a policy instrument. Smaller developed countries are fearful of being squeezed by competition——

Senator BOSCHWITZ. In reducing incentives, is that what you are talking about, production incentives?

Secretary AMSTUTZ. The smaller developed countries are fearful of being squeezed by competition between the United States and the European Community. Developing countries want access to developed country markets for their exports.

While this is an oversimplified summary, it does demonstrate that there are fundamental differences that have to be resolved. Negotiations, therefore, will not be easy.

Nonetheless, we are encouraged by the fact that others truly want a negotiation and by our competitive ability which allows us to enter the talks from a greater position of strength than we have had before.

The groundwork for negotiations has been laid in the work of the GATT Committee on Trade in Agriculture since 1982. After a thorough examination of agricultural policies, from commodity price supports and production subsidies to import barriers and export programs, the Committee on Trade in Agriculture, the CTA, concluded that negotiations should center on three broad areas:

The first area, all quantitative and related restrictions on imports and exports, including variable levies, state trading and other measures, should be brought under more effective GATT rules.

Second point, all subsidies, including all forms of export assistance, should be brought under more effective GATT rules. In the case of export assistance, two approaches should be developed: Either improve existing rules or develop a general prohibition with carefully drawn exceptions.

And the third point, plant and animal health regulations and other technical barriers to trade should be subject to improved procedures to minimize their adverse effects.

The U.S. position, which is aimed at achieving significant movement toward free trade, follows the same outline:

The United States is seeking commitments to apply no new import barriers and to phase out existing nontariff barriers.

Second, the United States wants to freeze the present level of export subsidies and phase them out.

Third, we want to harmonize food, plant and animal health regulations.

In addition, the United States wants improvements in general GATT dispute settlement procedures so that once trading nations have agreed on better rules, we can be assured they will be applied consistently and dependably. Present procedures are too easily blocked by the parties to a dispute when they believe the rules have been interpreted to their disadvantage. If we can make the rules clearer, we will have a better chance of enforcing them.

Next month, the official declaration to open to the new round will not say much about how the negotiations on agriculture should be conducted, so this will be the first order of business. Our expectations are that:

There will be an Agricultural Committee, which will look especially at improvements in GATT rules on agriculture.

There will be negotiations for duty reductions and nontariff concessions on specific products, but this will be less important than in previous rounds and will concentrate on high-priority requests and offers.

And that agriculture will also be actively involved in negotiations in other subject areas, such as temporary import relief, dispute settlement and the protection of intellectual property rights including brands, trademarks and genetic patents.

Finally, Mr. Chairman, important as the new round of negotiations will be, they will not be our only concern either in the GATT or in bilateral negotiations. We are hard at work this year to settle claims against the European Community and Japan. We are negotiating with Canada on the possible establishment of a free trade agreement. We are consulting with many other countries on their trade barriers. We intend to maintain our vigorous efforts in all of these areas.

Thank you, Mr. Chairman. That concludes my testimony, and I, of course, will be happy to respond to questions.

Senator BOSCHWITZ. Thank you, Mr. Secretary. You have touched on some of the questions that Senator Wilson raised in his opening statement.

Now we will turn to Mr. Woods, and we are pleased to have you here on such short notice, Mr. Woods. I recently had the pleasure of having your assistant, Suzanne Early, to dinner together with a small group. We try to do it on a weekly basis to keep abreast of agricultural happenings. It was very interesting to be with her.

If you would proceed, please.

STATEMENT OF HON. ALAN WOODS, DEPUTY U.S. TRADE REPRESENTATIVE

Mr. Woods. First of all, Mr. Chairman, I would like to ask that my formal statement be submitted for the record, and I will summarize briefly.[6]

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to discuss what is at stake for the United States and for the world in the new round of multilateral trade negotiations, particularly in the field of agriculture.

The United States is the preeminent exporter of agricultural products in the world. Domestically, we consume only a little over half of our grain and soybean production and less than half of our cotton production. The balance of these products goes for export, which alone added about $21 billion to gross farm incomes in fiscal year 1985. Simply put, we need internationally agreed and enforced disciplines over the use of agricultural import restrictions and export subsidies to ensure continued export sales.

The problem is that world trade in agriculture is in a state of crisis, largely as a consequence of highly subsidized agriculture exports, principally by the European Community, coupled with protected foreign markets. American farmers are losing market shares abroad because they simply cannot compete with these foreign subsidies, and few new market opportunities are available.

The long-term situation is simply intolerable. We must end the chaos that now characterizes the international marketplace by bringing agriculture under effective and enforceable multilateral rules. We must eliminate import restrictions on agricultural products, treat agricultural export subsidies no differently than subsidies for industrial products, and eliminate other barriers to market access in developed and developing countries alike.

For the past 7 months, we have been working with our trading partners in the GATT to develop an ambitious, comprehensive agenda for a new multilateral trade negotiation round. The preparatory committee completed its work late last week, but was unable to reach agreement on a single draft ministerial declaration that encompassed the full range of issues that must be addressed. One of the key outstanding issues is the treatment of agriculture—a subject which, from our perspective, simply must be included in the negotiations in a comprehensive way.

We are not particularly concerned about that situation, I should add, because we are all well aware of the political sensitivities of agriculture trade. And it is not surprising that at the technical level negotiators in Geneva were unable to resolve what is, in essence, a political problem. We are confident, however, that when Ambassador Yeutter joins the trade ministers of the 92 GATT countries during the week of September 15 in Punta del Este, we will be able to make the necessary political decisions to launch the new round and include trade in agriculture on the agenda.

We have tried many times in the past to reform the rules on agricultural trade, but we have not been successful. Yet we believe that the atmosphere is more conducive to reform today than in past negotiations, and we are optimistic for two basic reasons:

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[6] See p. 501 for the prepared statement of Mr. Woods.

First, subsidizing agricultural trade is exceedingly expensive and growing more so. Both the European Community and the United States will spend in excess of $25 billion on agricultural support programs this year. Each of us will also have massive surpluses to deal with, notwithstanding that enormous expenditure, and sometimes because of it. In the United States, we currently hold almost 1 year's wheat production in storage and one-half year's corn production.

The European Community has mountains of beef and butter and lakes of wine. Neither of us can go on like this. The tremendous expenditures that each of us is making in agriculture, and the fact that those expenditures seem only to be leading to greater surpluses, is likely to be the driving force that causes us to come together to reform agricultural trading rules in the new round.

Second, many other countries share our deep-rooted concern about the future of agricultural trade. A large group of both developed and developing countries have called for negotiations to bring meaningful disciplines to trade in agriculture and intend to take part in those negotiations. Australia, New Zealand, Thailand, Brazil, Argentina, and Uruguay have joined together under the name of "nonsubsidizing agricultural exporting countries" to pursue their common interests in the negotiations. While they have thrown brickbats recently at United States agricultural export policies, they have not spared the European Community or Japan from as much or more censure. Because their economies are so greatly dependent on agricultural exports, I believe that these exporters will be a positive force in developing more market-oriented rules for agricultural trade. We look to them for support in reaching and implementing early results for agricultural trade problems.

There is much to be gained for U.S. agriculture in a new round. We are a competitive producer of agricultural products, and as such it is in our long-term interest to have agricultural trade based on the principle of comparative advantage. It is in Europe's interest as well to liberalize trade in agricultural products. Liberalization would help Europe to improve the allocation of economic resources and increase economic growth. Increased export opportunities for developing countries would help relieve their debt problems and allow them to develop more market-oriented import policies.

There are lots of good reasons for committing ourselves to reforms in agricultural trade. The question we and other GATT members have to ask ourselves is whether we have the political will to actually carry out the task. We intend to make a very strong case at the trade ministers meeting in Uruguay that we have no other alternative, that we must end the chaos in international agriculture through a new multilateral round of trade negotiations.

Thank you, Mr. Chairman.

Senator BOSCHWITZ. Thank you very much for your opening statement. I will read it in its entirety. I note that Australia, New Zealand, Thailand, Brazil, Argentina, and Uruguay have joined, as you noted, under the name of the nonsubsidizing agriculture exporting countries. Do they deserve this title that they have bestowed upon themselves?

Mr. Woods. You will note that I put that particular title in quotations. My personal view is that there are no virgins in agricultural trade, as it were, Senator, and that we all have some sin within our household, and I feel certain that those countries do as well.

Secretary Amstutz could probably elucidate on particular trade practices to a greater degree than I could, however.

Senator Boschwitz. Would you like to do that?

Secretary Amstutz. This is always a very delicate subject, Mr. Chairman.

Senator Boschwitz. Well, I presume that you are not going to be delicate down in Montevideo.

Secretary Amstutz. No, we are not.

Senator Boschwitz. All the more reason not to be delicate here.

Secretary Amstutz. That is exactly right.

Senator Boschwitz. Certainly you would not treat those folks better than you treat us.

Secretary Amstutz. Well, I sometimes say, Mr. Chairman, I do not think for any of us that we would admit that our mothers had any stupid children.

Most assuredly not. Our primary interest is always and will continue to be to look out for the interests of this country and its taxpayers and its farmers, of course, from the standpoint of the Department of Agriculture.

In the area of who is or is not a subsidizing exporter on export subsidies, and specifically addressing that particular point, we would say that Argentina is not.

Senator Boschwitz. Is not subsidizing.

Secretary Amstutz. Is not subsidizing.

Senator Boschwitz. As a matter of fact, they had a tax on exports that cost a lot.

Secretary Amstutz. That is exactly right.

Senator Boschwitz. But now they have reversed that.

Secretary Amstutz. Yes. We would also agree with the Australians and the New Zealanders that they are not subsidizing exporters.

Sometimes the existence of marketing boards imply to some that a subsidy is inherent. Marketing boards, as they exist in New Zealand and Australia, are not governmental entities. That is most important to remember.

They are akin to cooperatives and function much the same way, although they have monopolistic powers. So when a marketing board sells at a lower price to one destination than another destination, it is not the Government that makes up the difference. It is the farmer, the farmer member, so to speak, of that cooperative effort.

Senator Boschwitz. In the case of the Australians in a bad year, do they not sometimes average out?

Secretary Amstutz. The whole concept of a marketing board is to average out. The way the marketing board attempts to function is that in most instances they will pay an initial price to the farmers.

Then after the year is over, after the revenues are all totaled and averaged out, the difference between that initial payment and the summation of all the revenues from all the sales is divided up among the farmer participants in direct relationship with the amount of wheat or other commodities they have delivered.

In Canada, in this regard, there is——

Senator BOSCHWITZ. Pardon me. Before we leave Australia, in a bad year the Australians do not put something in the pot?

Secretary AMSTUTZ. Well, I am not aware of any down there. That is why I brought up the Canadian subject, and I purposefully excluded Canada from my previous commentary.

In Canada, there is statutory authority for the Government to make up the difference between the initial payment made to farmers and the final year's summation of revenues if that particular final year figure is lower than the initial payment figure.

As I say, there is statutory authority for the Canadian Government to make up that difference. In Canada, as well, there are a number of provincial stabilization programs that provide assistance to farmers. And, of course, in Canada, as Senator Melcher and you are well aware of, there is a transportation subsidy in effect that results in—that is, in fact, in our judgment a direct export subsidy. This is the Western Grain Transportation Act.

Senator BOSCHWITZ. An apparently heavy subsidy.

Secretary AMSTUTZ. Yes.

Senator BOSCHWITZ. I note that also Thailand is listed. I do not believe that they subsidize.

Secretary AMSTUTZ. No, they do not.

Senator BOSCHWITZ. The Brazilians are listed. By and large they subsidize kind of in reverse.

Secretary AMSTUTZ. Well, in reverse. And they have a system in Brazil where they have an export tax concept, but they tax the export of processed products—soybean oil, soybean meal—at a significantly lower rate than raw material exports. It is called a differential export tax.

And the net effect of that is a subsidy to the processing industry in Brazil. That makes it more difficult for our processing industries to compete in overseas markets.

Senator BOSCHWITZ. Well, but nevertheless, there is a tax, is there not?

Secretary AMSTUTZ. There is a tax.

Senator BOSCHWITZ. Can one say, therefore, that the Brazilians subsidize by having a lower tax on the processed goods than they do on the beans themselves?

Secretary AMSTUTZ. Well, they, in effect, subsidize an industry. They subsidize by that process and they create a distortion in international trade because of that. And that is the——

Senator BOSCHWITZ. I have not understood that, because suppose they had no tax at all. Their industry is now advantaged over the soybean grower.

Secretary AMSTUTZ. Yes.

Senator BOSCHWITZ. But nevertheless, their industry is disadvantaged as a whole because there is a tax no matter what——

Secretary AMSTUTZ. I understand your point.

Senator BOSCHWITZ. Am I correct in my point?

Secretary AMSTUTZ. Yes, you are correct. Taxes generally are differential and a disincentive.

Senator BOSCHWITZ. That is what they say.

Both you and Mr. Woods alluded to some hope. Would you give me your assessment, both of you, if you will, and then I will turn to Senator Melcher.

What is the probability of getting some form of agreement, whether it is on barrier or production incentive or export subsidies or perhaps the standards? What would the form of that agreement be? Would there be a chance of getting some improvement? Would it be more likely that we would hold in place where we are and agree not to increase those or make the standards more difficult to cope with?

What, in your judgment, is the probability of getting some form of agreement? And as an ancillary question, how badly are the Europeans hurting?

Secretary AMSTUTZ. Shall I go first?

Mr. WOODS. Go ahead.

Secretary AMSTUTZ. I will try to be succinct.

You asked the key question. First, it is enormously important that we make meaningful progress in this trade round. I do not think there is any question of that. That creates, on our part, a commitment to press as hard as we can for meaningful progress.

Second, it is our judgment that meaningful progress is only possible if we progress comprehensively in all of these four particular areas that we have mentioned: the trade practice area, which is the subsidy area; the market access area; the health regulations standardization or harmonization area; and the dispute settlement process.

Now, we are hopeful, yet at the same time we have no illusions about the difficulty of this process, none whatsoever. We are hopeful for several reasons. First, as evidenced by the summit in Tokyo, there is general agreement among the industrialized countries as to what some of the problems in agriculture are. That is noteworthy. Two years ago, the kind of statement that was issued from the Tokyo summit would not have been forthcoming. Two years ago, the seven attendees at the summit would have been blaming each other for the problems. In a sense, at the summit they echoed the famous Peanuts comment that we have discovered who the enemy is and the enemy is us. That is important.

The very cost figures that developed countries' treasuries incur for agriculture helps create willingness to address the problem. Alan Woods in his testimony said that in this year, both the United States and the European Community will spend some $25 billion in agricultural programs. I am never sure at what level one breaks the bank, so to speak, but I do know that in every country in the world—not just this one—this question of fiscal management is enormously important. All countries are having difficulty living within their means, and all countries are desirous of curtailing Federal expenditures if at all possible. And more strongly than that, all countries that I am aware of recognize that there is a need to do that.

So that helps; the very financial plight that exists around the world.

Alan mentioned in his testimony that the language that goes forth from the Preparatory Committee in Punta del Este was not specifically agreed to by all the contracting parties.

As a matter of fact, there are three sets of language going forth. One is the general view of most of the participants, including the United States. Another is a draft of the less developed countries. And a third is what I would characterize as a compromise attempt by the Government of Argentina. They might characterize it differently, but for now I think that is descriptive.

Alan mentioned that he and Ambassador Yeutter are not discouraged by this, and we at Agriculture share that view. We are impressed with what all is in the principal document that is going forth. Reference is made in that document to the agenda set forth by the Committee on Trade in Agriculture. That is important.

Of course, we are concerned by what is not in there, and I might add that one of the glaring exceptions is a catch term that exists in agriculture and the words are—and they are dangerous words—"special characteristics of agriculture."

Nations have a way of saying, "Let us do this on market access barriers, let us do this on subsidies, but let us also remember the special characteristics of agriculture in my country." This is what the Japanese say when we are talking about increasing market access in Japan. This is a phrase they hide behind. It is what the Nordic countries say.

Senator BOSCHWITZ. What the special characteristics in Japan are is that the farmers have a disproportionate vote.

Secretary AMSTUTZ. That is exactly right.

And we will have to attack these things. Perhaps in the final analysis, the greatest reason for feeling there is light at the end of the tunnel in this difficult process is that, when one asks the question: "what if"—what if this new round fails to bring forth meaningful corrections in the GATT, what do we do then? And one's imagination can run rampant as to the chaos that would exist in the world of agricultural trade if we do not create needed disciplines now.

And so perhaps in the final analysis, that is the greatest incentive for all participants for progress.

Senator BOSCHWITZ. Thank you.

I was just going to turn to you, Senator. You wanted to make an opening statement.

Senator MCCONNELL. I will not take but a minute, Mr. Chairman. We are about to begin the hearings on Judge Scalia in the Judiciary Committee in 10 minutes.

If I could, I would like to put my opening statement in the record.[7] Also thank Alan Woods——

Senator BOSCHWITZ. I hope he has not bought any houses in Vermont.

Senator MCCONNELL. Just like John F. Kennedy.

Senator BOSCHWITZ. True.

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[7] See p. 500 for the prepared statement of Senator McConnell.

Senator **McConnell**. I would like to thank Alan Woods for coming to Kentucky only a week ago to an agricultural export conference that I sponsored. I appreciated that very much.

And if I may, Mr. Chairman, just ask one question.

Senator **Boschwitz**. Sure.

Senator **McConnell**. I think we have all watched—some with amusement, others with dismay—the volleys back and forth between the majority leader and the Secretary of State over the wheat sale to the Soviets. I wondered, Alan, if you had any observations about the foreign policy versus farm policy debate currently going on within the administration.

Mr. **Woods**. Well, Senator, I am not sure I can comment on that. I am just involved in trade policy myself.

But certainly, that decision has been made and the sales are going forward, and the decision has been made by the President and made on what are good solid grounds as it relates to trade in agriculture.

So I do not think there is any comment one would make beyond that specific observation.

Senator **McConnell**. Thank you, Mr. Chairman.

Senator **Boschwitz**. Incidentally, I wanted to mention that while the Argentines and Brazilians may not have some of these subsidies on exports, I know in Argentina it is extraordinarily difficult to export to them, extraordinarily difficult. So that we should not let them and this hearing off the boards by saying they do not subsidize exports. They sure raise barriers against imports, and I think the Brazilians also, but to a somewhat lesser degree.

Is that a correct assessment?

Secretary **Amstutz**. You are absolutely right, and that is why I mentioned before that for agreement we have to have a comprehensive agreement. We need agreement to open up markets as well as to correct trading practices.

And believe me, Senator, there is no country in the world that exists that does not have things to put on the table in this new trade round.

Senator **Boschwitz**. I have just been passed a note that Mr. Woods is running a little behind, and I do not want to in any way impose on your time, Senator Melcher. But if you would address your questions, those that you wish to address to this panel to Mr. Woods first so that he can get on his way.

Senator **Melcher**. Thank you, Mr. Chairman.

I only have one question, Mr. Woods. In your decision on subsidizers and export, how do you view those countries—let us use Thailand as an example—that export large quantities of a commodity, in their case rice? The farmers that have been producing that rice, probably earn about a buck-and-a-half a day. Is that a subsidy?

Mr. **Woods**. Well, if you look at the standard of living of the people of Thailand—and I think that is what you are really referring to, in a sense, when you talk about earning a buck-and-a-half a day—you have got to say that their labor costs are a factor in their so-called comparative advantage. But you also have to look at the pertinent factors in their situation: how they get that rice to the marketplace, and the nature of their livelihood and their lifestyle in Thailand.

They are, to a degree, poor farmers. There is no question about that, and it is a reflection in their lifestyle that a buck-and-a-half a day that goes into their cost of production.

Senator MELCHER. Then we find ourselves at cross purposes, do we not? We have a deliberate policy of marketing rice which means that American rice will be cheaper on the world market, which means in turn that Thailand's rice is going to be cheaper for that buck-and-a-half a day farmer.

Mr. WOODS. No question about it.

Senator MELCHER. Do you not have any resolution to this dilemma?

Mr. WOODS. Well, in the end, there is no resolution to that dilemma. The fact is that in any commodity, as the supply of that commodity increases and exceeds the demand of the commodity, the price is going to go down. That is the effect. That is what has happened in agricultural commodities on a worldwide basis.

Senator MELCHER. We have lowered the price because Thailand sold it cheaper; is that right?

Mr. WOODS. That is my understanding of the intent of the 1985 farm bill.

Senator MELCHER. The price was deliberately lowered because Thailand had it cheaper.

Mr. WOODS. Because Thailand was able to sell rice cheaper.

Senator MELCHER. Thank you. That is all I have for you, Mr. Woods. Thank you very much.

Senator BOSCHWITZ. Were we directing our lowering rice prices?

Mr. WOODS. At Thailand?

Senator BOSCHWITZ. Yes.

Mr. WOODS. No; that was not directed at Thailand per se. That is the effect, however.

Senator BOSCHWITZ. Because they are the largest rice producer. It was interesting. I do not mean to expand your time here, and I know that you need to go. The cost of getting it to market is so much greater. The same as in South America where they may sell at $3 a bushel at the port and have a tremendous cost of getting it to market. Did you describe that in Thailand? You alluded to it.

Mr. WOODS. Well, I cannot give you the specific effect, but I do know that they have some substantial costs, and more importantly, it seems to me that it is not the cost of getting it to market, but the inefficiency of the nature of the system they have for getting their rice from the field to the boat. It is not a mechanized process in any way, shape or form. It is rice farmers on foot.

If I may, Senator, I would like to come back to an earlier question you asked, because I think that there is a factor about Punta del Este that we must notice and focus on. And Secretary Amstutz did an excellent job, I think, of stating our position with regard to Punta del Este and the position that world agricultural producers and consumers have there.

But what Punta del Este is and what Punta del Este is not is very important to understand. It is a beginning. It is getting agriculture on the agenda for discussion. Then we are going to have to proceed at a rather rapid rate, given the status of agriculture in the world today, for resolution over the next 2 or 3 years following the September 15 meeting.

Punta del Este does not solve any problems. Punta del Este begins a process by which we can preserve and strengthen the only mechanism that exists in the world today to solve this global agricultural problem. We might wish that there were another mechanism in existence, but the fact is that there is not. And this is the forum in which we have to deal with this issue.

Senator BOSCHWITZ. It is the only game in town.

Mr. WOODS. Exactly.

Senator BOSCHWITZ. As I said a little earlier, there are a lot of trade issues that are going to be addressed down in Uruguay, and we hope that agriculture will be a very high priority. We are always a little bit suspect, and maybe even a little bit provincial, certainly very suspicious thinking that other items will take precedent over agriculture. We hope that will not be the case because, as I stated earlier, the area where—what did you call it again—the special?

Secretary AMSTUTZ. The special characteristics of agriculture.

Senator BOSCHWITZ. The special characteristics of agriculture have been such that there are more barriers in that area than in any other area, and we would hope that the barriers begin to come down and that we can speak to our constituents with a clear mind that barriers are coming down.

I would ask you two that you both assess very briefly the impact of the 1985 farm bill on these negotiations. I know that you have alluded to it in your testimony.

Mr. WOODS. Well, I think the effect of the 1985 farm bill on our negotiations is that, particularly with respect to the European Community, where we see the Community is the major competitive subsidizer of agricultural exports in the world, that it has provided the tools to us to attack those subsidy programs and begin to make the cost of those subsidy programs more expensive to the Community. I believe they have an appreciation for that.

If you look at the circumstance they have today, in excess of 70 percent of the Community's budget goes for agricultural programs. They have a cap. And I do not mean the Common Agricultural Policy in this case, but a limit in their agreements among the nations of the Community as to what percentage of the Community budget can be used for agriculture programs.

The nature of the 1985 farm bill is likely to cause them to have to make a decision. Either they will subsidize less, provide less in the way of agricultural programs, or they are going to have to change the limitations that they have on the percentage of the budget that goes for agricultural programs.

If that occurs, that is a significant political decision that the Community is going to have to make in a very big way.

Senator BOSCHWITZ. Secretary Amstutz, I wonder if you would comment briefly on what impact the 1985 farm bill had on the negotiations that were going forward.

Secretary AMSTUTZ. Well, I think Alan Woods has stated it very well, and in my testimony I said much the same thing.

We have made the cost of poker higher, and if you will recall, I said one of the reasons for light at the end of the tunnel is these real financial constraints.

Senator Boschwitz. How long a tunnel?

Secretary Amstutz. How long a tunnel?

Senator Boschwitz. How long a tunnel? I mean, these negotiations do go on for years.

Secretary Amstutz. That, too, is a very important question. In years past, these things have stretched out for—I think the last round was 6 or 7 years.

From our standpoint, that kind of a timeframe is unacceptable. We want to see meaningful results within 2 years.

Senator Boschwitz. How important is it for us not to change the farm bill in that case? For instance, suppose we were to raise the loan rates, what would it do?

Secretary Amstutz. Well, that would be self-defeating because it would raise prices and provide more of a price umbrella over our competitors and provide us with less financially related leverage to bring about a resolution of these matters internationally.

Senator Boschwitz. Well, I agree with that, and I feel very strongly that we have to stay the costs with this farm bill, and if we fool around it, we not give the wrong impression to trading partners or trading opponents in the world. Otherwise, we will, in my judgment, substantially undermine the ability of the negotiators to come to a conclusion.

We thank you gentlemen very much for coming.

Senator Melcher. Mr. Chairman, I did ask a question, as you suggested, of Mr. Woods. It was only one question.

Senator Boschwitz. And then I went on.

Senator Melcher. Yes; I do have questions for Secretary Amstutz.

Senator Boschwitz. Mr. Woods, if you need to go, thank you.

Senator Melcher. Thank you very much.

Mr. Amstutz, first of all, just so we have an accurate record, was it not Pogo that said, "We have met the enemy, and they are us"?

Secretary Amstutz. You are right, Senator. I apologize.

Senator Melcher. Pogo is a philosopher, not Peanuts.

Secretary Amstutz. You are right. I stand corrected.

Senator Melcher. Mr. Woods said that the Russian wheat sales were going to go forward. I do not know whether he misspoke or not, but has there been any sales? The announcement was made that the price would be reduced if they chose to buy. Have they indeed said they wanted to purchase?

Secretary Amstutz. They have given us every indication that they would, Senator. Now, not much time has elapsed since the announcement on Friday.

What we have done subsequent to the announcement on Friday, yesterday afternoon we announced the subsidy rate that would be in effect on business to the Soviet Union for the remainder of this week.

I honestly do not know whether business was done today in Moscow. It is highly possible that it was and that I have not heard of it yet.

Senator Melcher. What is the subsidy rate?

Secretary AMSTUTZ. Thirteen dollars a ton.

Senator MELCHER. How is that going to be paid? The Department announced that there would be $13 per ton on sales to Russia up to 4 million metric tons. They announced that so that grain companies could tender an offer to Russia?

Secretary AMSTUTZ. That is right.

Senator MELCHER. And how are the grain companies going to receive that $13 a ton? In commodities?

Secretary AMSTUTZ. In our so-called generic certificates. The process will be this: That all the exporting companies and cooperatives will calculate their offers and submit them to the Soviets and negotiate; after concluding a sale, they will register that sale with us. And then, when the exports against that sale are actually effected, the certificates equal to $13 a ton face value will be given to the exporters, and those certificates are redeemable in the commodities owned by the Commodity Credit Corporation.

Senator MELCHER. At what price per bushel would the wheat be if the company, co-op exporting company or co-op chose to redeem their certificate in wheat? What price per bushel would be contemplated?

Secretary AMSTUTZ. It depends what day we list and publish sort of an ever-changing catalog, always being updated, of CCC inventory at locations around the country. And we put a market price on that inventory in each of those locations.

And as holders of certificates, be they farmers or grain elevators, want to redeem, they choose from those various lots in the catalog. The price at which they redeem is the market price for that day they redeem at that location where they redeem.

Senator MELCHER. So if Harvest States Co-op got part of this 4 million metric ton sale, they might pick up wheat in Minneapolis.

Secretary AMSTUTZ. Or in Montana or wherever. Or they might choose to sell the certificate and turn it into cash and let the buyer of the certificate redeem it. We see in these certificates we have outstanding, and I think the financial term is velocity, quite a bit of velocity. These things trade, they come back to us, and there are eight or nine endorsements on them.

Senator MELCHER. Can they not settle for cash with the Department?

Secretary AMSTUTZ. No; they settle for certificates, and these days, Senator, they would——

Senator MELCHER. Certificates will not be redeemed for cash by the Department?

Secretary AMSTUTZ. Well, there is at the end of the road, if the certificate is not redeemed in the regular process, there are clauses in that certificate, but in my judgment, that will never happen. These certificates are working quite well in accomplishing what we had hoped they would.

Senator MELCHER. If they were redeemed for cash, what would the cash redemption be? How would you compute the cash redemption?

Secretary AMSTUTZ. Well, if I misspeak—and it is possible I will because I have not looked at this for a while—I would like to send up and correct the record.

One problem with cash redemption at the end of the road is that we would have to put on to that the Gramm-Rudman hair cut of 4.3 percent. And we do not have to do that as long as it is in kind.

Senator Melcher. What would it be?

Secretary Amstutz. Well, that would be 4.3 percent.

Senator Melcher. I understand the 4.3 percent, but 4.3 percent of what?

Secretary Amstutz. Of the face value of the certificate.

Senator Melcher. That is what I am asking. What is the face value per bushel?

Secretary Amstutz. It is not per bushel, Senator. It is dollars and cents. It is $13 a ton.

Senator Melcher. All right.

Secretary Amstutz. And we give them a financially documented certificate.

I think the certificates will be used for redeeming CCC inventory.

Senator Melcher. Perhaps it is more valuable to do that.

Secretary Amstutz. Well, it is better for the whole system. Exactly. And we had hoped these things would work before we issued the first ones, and as each week passes, our confidence that they are working grows.

Senator Meleher. Would you send me up a copy of a certificate?

Secretary Amstutz. Surely.

Senator Meleher. And the price in Minneapolis and Kansas City. That will be sufficient, those two prices.

Secretary Amstutz. Surely.

Senator Melcher. Pick out a day this week. Send me this Thursday or Friday.

Secretary Amstutz. I will send you both.

Senator Melcher. Under one scenario, if it ultimately went to be cashed out rather than accepting the commodity, there would be a 4.3 percent reduction in the value of the certificate under Gramm-Rudman.

Your answer implies, Mr. Secretary, that that is only if they are cashed out, but has no effect if the commodity is actually received.

Secretary Amstutz. That is right.

Senator Melcher. That is what prompted my statement that perhaps they have more value in commodity than they would in cash.

Secretary Amstutz. Yes. Yes, and I agree with you. And that is the reason for my confidence.

Senator Melcher. I see.

Now, if there are 4 million metric tons sold this week—and I say if—what effect is that going to have on the price of wheat?

Secretary Amstutz. Really not a great deal. It is always dangerous to speculate on what markets will do, but from a standpoint of overall supply and demand balances, it is not an enormous amount.

Let me then say this: It is certainly a constructive kind of input for the market, but for me to imply any thought that it will have a significant long-term effect on the market, I think could be somewhat misleading. I hope I am communicating. I am trying to.

Senator Melcher. I think you are accurate. This is part of what was contemplated by the Department at the first of the year would be sold to Russia, is it not?

Secretary Amstutz. Yes.

Senator MELCHER. Now, this announcement was to the effect that the President had agreed that we would sell at "world price." We will put world price in quotes.

If it is a world price, is it not the price in Japan, in Taiwan, in Korea, or for anybody else? How are we supposed to interpret that?

Secretary AMSTUTZ. Well, it is always hard to speak for someone else, especially if he is the President of the United States.

Senator MELCHER. Who made the announcement? I thought Secretary Lyng made the announcement.

Secretary AMSTUTZ. Secretary Lyng made the announcement. The President made the decision.

Senator MELCHER. All right. Did Secretary Lyng say world price?

Secretary AMSTUTZ. Yes.

Senator MELCHER. What did he mean?

Secretary AMSTUTZ. He was trying to be descriptive, and he was saying in essence what we have since put into the process.

Senator MELCHER. He tried to be descriptive and accurate?

Secretary AMSTUTZ. Yes, and as descriptive——

Senator MELCHER. Accurate and descriptive.

Secretary AMSTUTZ. Yes.

Senator MELCHER. What is the world price in Japan for United States wheat today? Is it the same as the Russians have?

Secretary AMSTUTZ. No. For Japan today it is not the same.

Senator MELCHER. Then it is not a world price.

Secretary AMSTUTZ. Well, I said I met with the press yesterday, and I met with them after we announced our subsidy levels. Before visiting with them, I asked them what the word "nebulous" meant, and they said "murky." And I said, well, then, that is the word I will use, that the world price for any commodity that is forever changing often is murky.

As I say, the announcement was made to be descriptive.

Senator MELCHER. But accurate.

Secretary AMSTUTZ. I think I am not talking out of school when I say that the Secretary did not want to use the word "subsidy" in his announcement because of problems that that would call forth from some quarters.

Senator MELCHER. There is no quarrel over this, I do not think. In effect, I am just asking if you agree. In effect, what we are willing to sell grain for, and sell wheat for, is world price, is it not?

Senator BOSCHWITZ. Did you answer that?

Senator MELCHER. I do not think he answered the question.

Secretary AMSTUTZ. I could not understand the question.

Senator MELCHER. I can accept at face value the Secretary's statement on behalf of the President that we would sell at world price to the Russians, which means that $13 a ton would be the subsidy. If he does not want to use the word subsidy, it is all right with me. I just believe that we establish the world price when we make announcements on what a sale will be. Four million metric tons is a sizable commitment, and I think, in effect, we announced the world price, did we not?

Secretary AMSTUTZ. Well, we announced what we thought was—when we announced the subsidy level, what we in effect did was announce what we thought was the difference between U.S. domestic prices FOB and price levels at which wheat was trading around the world. That is right, the difference.

Senator MELCHER. Well, nevertheless, we are now in the position this week having announced what the world price was on that sale. We are in a position now to say to Japan, to Taiwan or to Korea that the price this week is $13 a ton higher. Is that what you are saying?

Secretary AMSTUTZ. Well, I understand what you are getting at in your question, I think, Senator, and the answer is "Yes". As of today would U.S. wheat to Japan cost $13 more per ton than to the Soviet Union, and the answer is yes.

Senator MELCHER. Is it not likely that France and Canada and Argentina will seek to sell to Russia the same 4 million metric tons, and maybe we do not have the sale, anyway?

Secretary AMSTUTZ. Well, that is always possible. We live in a very competitive world.

But I will say this in response to an earlier question. I said that we had confidence that the Soviets would buy this.

Senator MELCHER. All right. I can accept that. I think it would be very alarming if they did not buy it after that announcement. But I think the point is this: Others will naturally seek to protect their own interests, and therefore the bald statement that we will sell at world price was an admission that the world price was $13 under what we thought it was, and that Japan, Taiwan, and Korea, or other purchasers of U.S. wheat, are certainly going to expect the same kind of treatment. Is that correct?

Secretary AMSTUTZ. Well, I understand your point, too, and philosophically, I would not debate you on that point, incidentally. But from a practical standpoint, let me say I do not think our wheat exports to Japan will suffer one iota. A monopoly does the buying in Japan. They are keenly aware of the horrible trade imbalance between the United States and Japan, and we have no reason to believe that our exports will suffer one iota.

To a certain extent, the same is true of Korea and Taiwan because of the trade balance consideration.

Senator MELCHER. Thank you, Mr. Secretary.

Senator BOSCHWITZ. Senator Wilson, do you have any questions?

Senator WILSON. Yes, I have, Mr. Chairman. Thank you.

Mr. Chairman, at the beginning of this hearing, you were kind enough to indulge a, I think, justified tirade on my part that focused upon the dispute mechanism or dispute resolution mechanism or the absence thereof, and also on the very loose definition of an illegal subsidy.

The practical effect of the trading practices in which the European Economic Community has engaged has been that we have lost market share that we have long since earned. And they are taking markets by virtue of being able to subsidize prices. It has happened repeatedly. I need not quote you chapter and verse, because you are familiar with it.

But one of the most recent and yet most painful of these experiences has occurred in the wake of the so-called citrus-pasta war, when European counter-retaliation resulted in a serious injury to totally innocent bystanders, those who were the walnut growers who, along with the growers of lemons, were the object of a counter-retaliation. This was after the President, finally having exhausted his patience, was advised by Ambassador Yeutter to retaliate against the Europeans for their outrageous discrimination against American citrus.

Last year, when we were debating the farm bill, we included the trade title sections having to do with targeted export assistance. I must say that I am pleased that these have been used on behalf of a number of specialty crops, and I think that the mechanism has proved quite successful.

But I have a bone to pick with my friend, Mr. Amstutz. This will come as no shock to him since we have exchanged correspondence on it. When we inserted that targeted export assistance provision in the legislation, specifically to counter or offset the effects of unfair trading practices, including subsidies of the kind that we have been discussing here this morning, it was with the understanding of the committee, I believe, that it would not be used exclusively for the purpose of promoting and developing new markets in new countries. But as the words counter and offset imply, it would be used to try to do something about those lost markets themselves, not simply offset them but develop new ones.

Now, it is not enough to say to me that the exporters themselves were aware of what was happening and sought to deal with that. The fact of the matter is that they really cannot, nor do I think it fair that they should be asked to any more than I think it was fair that when during the Carter administration we canceled grain sales to the Soviet Union that we should, as a result of imposing a national policy, one thought to be good for the entirety of the American people, let the American grain farmer suffer exclusively the burden of implementing that policy. And, we did not do that.

CCC at that point purchased existing contracts, and did offset those lost markets, as indeed they should have. Because it would be palpably unfair to wheat farmers in Senator Melcher's State or Senator Dole's State or your own to say that we have decided that our policy is going to be to boycott the Soviet Union—we are not going to let those sales go through, and by golly, you good soldiers, our commendation to you, you are right there on the front line. It is too bad that you are not going to make those sales, but so be it. It is important in the national interest that we stand firm.

Well, the fact of the matter is we made the judgment that it was important. I do not think it was good judgment, but we made that judgment and that as a result, the burden should not fall exclusively on those farmers.

And what we did was to compensate them for lost markets. We did it under the authority that then existed in the charter of the CCC and existing authority that the law gave to the Secretary of Agriculture, and no one questioned it.

I am disappointed that we have not exercised at least the same ingenuity and concern about those who are other victims of unfair trading practices in this case, unlike the farmers whom we sought to compensate back in 1979.

The policy that we were offsetting was one of this Government, but I see very little distinction between that and the clear policy contained in the trade section of the farm bill last year in the targeted export assistance sections. It was that section that said it was going to be our policy to counter and offset unfair trading practices that resulted in a loss of market share for the American farmer.

But my friend, Mr. Amstutz, does not make that distinction, although I have pointed out to him the legislative history of the bill and the fact that we made abundantly clear our policy. After that counterretaliation by the EC, we responded by making clear that it was our purpose to provide just that kind of assistance.

I do not know how much clearer we need to get, Mr. Chairman, but if there is no change, then I am going to say to Mr. Amstutz, to the members of the committee, that I am going to seek to spell out the authority in the law for them to make that kind of compensation. I see no practical difference; the loss is the same, and I think it unfair that they should be subjected to suffer that burden, just as it would have been unfair for American grain farmers in 1979 to suffer exclusively the burden of our policy to boycott grain sales to the Soviet Union.

That is a statement. I guess it is a rhetorical question. If Mr. Amstutz cares to answer it, I will be pleased—well, I may not be pleased, but I will listen. I will be pleased depending on his response.

Secretary **Amstutz**. I would like to comment, if I may.

First, I think the TEA provisions in the farm bill are proving to be very helpful, and I recognize that I am speaking to the principal author of that. And I think they are indeed being used to do something about the lost markets, to use your very words.

We are already seeing beneficial effects of this market development tool. In all instances, incidentally, the private sector is participating in this. In no instance is this just the Federal Government. It is one of these classic, wonderful partnerships between the private sector and the public sector.

Senator, I say with all respect, we have not been insensitive to the plight of the walnut people in this regard. I will not say to.you that I have visited with them within the last several days, but with the total of $9 million that we brought to bear via this program for them to use in this area of, in essence, regaining lost markets, I believe that they view the Department as being forthcoming and cooperative.

There is no question but that we have some problem with this indemnification question. There is no question about that. And, of course, you have spoken to that. What we have tried to do is find another route to accomplishing the same thing, and I think the walnut people know that. I will check as soon as I get back to the office, but I think they understand what we have done and that we have been forthcoming and that their problems are, by and large, being addressed from the standpoint of us, the Government, working with them trying to recapture these lost markets.

As I say, there is no question we have this indemnification problem. It not only relates to the walnut growers; it can relate to a number of other areas.

Senator **Wilson**. Mr. Chairman, I know you recall vividly the time that we spent with Sir Roy Denman. I have made reference to it several times before. I think the fundamental point is this: At the time that the President decided to retaliate against pasta, it seems to me that he exercised once again considerable restraint. He picked up one of the smaller clubs available to him.

And the response of the Europeans was, I thought, quite cavalier. I will not engage in pejoratives, but I will say this: They were prepared to meet it head on. We know that their Common Agricultural Policy is explicitly premised upon the idea of granting subsidies to drive out the competition and steal market share by undercutting the prices that their producers would otherwise offer.

And their response in this instance, once again, was to simply shrug off the threat of retaliation by saying that what they would do is not only counter-retaliate, but also make certain that they would not suffer a competitive loss because of the increased tariffs that we would place upon their pasta products. Quite simply, would engage in a subsidy amounting to whatever it was that we charged by way of an increased tariff.

Now, I dislike intensely this whole concept, the concept of the cap—this idea that we will not allow the market to operate, that we will specifically distort it, and subsidize not the efficient farmer or not allow the efficient farmer to compete. What we will do is we will undercut the efficient producer by subsidizing the inefficient. I dislike that intensely, but that is the real world as we are finding it. I would suggest that if we are going to make sufficiently unpalatable to the Europeans the continuation of this practice, then we have got to be prepared to fight fire with fire.

Secretary AMSTUTZ. I have no disagreement on that. May I?

Senator WILSON. Sure.

Secretary AMSTUTZ. Ambassador Yeutter just returned from Europe Sunday. He will be leaving again, I understand within 1 or 2 days. We are involved in very intensive negotiations with the Europeans on this citrus-pasta-walnut issue, and there is no question that the administration agrees with what you have just said and that this has to be resolved. The Ambassador had hoped that it would be resolved by the end of July, and we had certain assurances that led us to conclude that that hope was indeed a real possibility.

I cannot say to you that I am confident this will be wrapped up within a week or so, but by golly, it should. And we completely understand that right now in a sense the walnut industry is out there waving in the breeze, and that is not right and it will not last. It will not.

Senator WILSON. Well, I have no doubt as to the intentions either of Ambassador Yeutter or of the support which you personally or the Department have for the position that he is taking. I will only say this: That if your expectations, which were my own, are once again dashed, and if the European Economic Community is not forthcoming and does not repair this injustice, then, Mr. Chairman, it is my intention to move as quickly as possible, and I hope with the support of this committee, to make clear that we are prepared to fight fire with fire. The Europeans need to take note that, while we do not like this way of operating, we are going to make it sufficiently expensive for them, making it a no-win proposition for them. Because I do not think it fair either to our farmers, nor do I think that we can afford as a nation, to engage in what, in contrast to the tactics used by Europeans, is really an academic form of wishing that it were not so.

Secretary AMSTUTZ. Agreed.

Senator BOSCHWITZ. Thank you, Secretary Amstutz.

We will continue with the hearing, and we will start with Dale Hathaway and then turn to Fred Sanderson.

STATEMENT OF DALE HATHAWAY, PRINCIPAL, CONSULTANTS INTERNATIONAL GROUP, INC.

Mr. HATHAWAY. Mr. Chairman, I have a statement which I will enter in the record.[8] I basically want to concentrate on the discussion of two points: One is the role of agriculture in the trade negotiations, and the other is some difficult choices that U.S. agriculture will have to make.

In terms of the issues that need to be negotiated, I think that these were laid out very nicely by Secretary Amstutz, and I have no major disagreement with those; therefore, I will omit that section of my discussion.

In looking at the overall situation in this GATT round, it seems to me that there will be one major difference between this round and the last round. That has to do with the extent to which nonagricultural issues and negotiations can be used as a lever to help agriculture. It may come as a great surprise to agricultural groups to know, since they were never terribly enthused about the last round, that we actually used a lot of nonagricultural leverage to bring other countries to the table on agriculture. And however modest the results may have been, and I do not think they were all that modest, I would have to say that I do not think that is going to happen in this next round. We are the demandeurs on services, intellectual property rights, a whole series of other things. Therefore, these sectors of our economy are not going to be terribly interested in giving up their demands for agricultural gains.

I see no evidence in sectors like steel and textile or other manufacturing sectors that they have any interest in giving anything up for agricultural gains either, and therefore that leads me to conclude that agriculture is going to have to be negotiated on its own.

Senator BOSCHWITZ. What did you say we were?

Mr. HATHAWAY. Demandeurs. We are the ones that are requesting that certain things happen. It was not somebody else's idea that we negotiate services and intellectual property rights, et cetera.

Senator BOSCHWITZ. Yes, I understand.

Mr. HATHAWAY. Now, that leads me directly to my other point which I think is very important; and that is, if we are to make progress in the agricultural negotiations, that means that the United States is going to have to be willing to put its agricultural programs, both import and export programs, on the table as part of the bargaining chips.

I think that there are difficult choices that American agriculture, this committee and others in the Congress are going to have to make in that regard.

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[8] See p. 506 for the prepared statement of Mr. Hathaway.

We cannot, I think, realistically expect to deal with the export subsidy questions, the broader subsidy questions without being willing to subject our own programs of target prices, other support programs, marketing loan programs, export credit, and related programs to international disciplines at the same time. If we are not willing to submit our programs to those disciplines, I think it is unreasonable and unrealistic to expect that other countries will be willing to do that.

That gets me exactly to my second point; and that is, that in the area of import controls, that is an area the United States also wants to make substantial progress, yet the United States has not yet been able to live with the rather loose rules under article XI of GATT. We have a special waiver for our section 22 programs, and it seems to me that we also are likely to have to put our section 22 waiver on the table if we expect meaningful negotiations on improved access.

This is going to lead to difficult choices for the American agricultural community and for the Congress. I know that there is a great tendency and great pressure to rule certain of our programs out of bounds in terms of these negotiations. I would urge this committee and other committees of the Congress not to rule out of bounds anything in these negotiations before the fact. The Congress always has a chance to come back and look at the final package and accept it or not accept it.

It strikes me that you will severely handicap our agricultural negotiators if in fact you rule out of bounds certain of the U.S. agricultural programs, be they import or export programs, prior to the start of this negotiation. So urging on behalf of our negotiators, whomever they will be, maximum flexibility to try to deal with what are very real problems to our own agriculture and the world agriculture.

Senator BOSCHWITZ. Before we turn to Mr. Sanderson, I wonder if you would give us an assessment of whether you are optimistic, Mr. Hathaway, or if you are pessimistic. You made some demands upon us that are not going to be easy to fulfill politically.

I might have a little easier time making some of those votes of some of my colleagues, and I do not mean to have that misinterpreted. But I think that in the long run, our farmers in this country are going to benefit greatly from a lowering of the barriers, impediments to trade. And we have a number of them on this side, and some of those very deeply affect my State, particularly sugar.

But as you see this and as our negotiators go to Punta del Este, are you optimistic about the outcome or are you pessimistic? Have other areas of international trade seen their barriers go down to such a degree that now it is agriculture's chance to turn? And are you an optimist about what is going to happen?

And second, how long do you think it will take?

Mr. HATHAWAY. Well, I am not sure that optimism or pessimism are quite the terms that I would care to use. I think that everyone recognizes it is going to be tough. It is going to be very tough and very difficult, and we will have to give as well as expect to gain in these programs.

Over the long run, I think you are absolutely correct. American agriculture, in my view, will in fact be better off if these major interferences with production and trade can be reduced and eliminated.

I think, though, that it is unrealistic to assume that it will be a rapid process, and moreover, I think from the point of view of our own producers, even if one is able to negotiate some agreement as to the ending of these practices, it seems to me realistic that you will have some kind of a phaseout period. Therefore, I believe that we are looking at a period of some years, and I do not know what that means, but not 1 or 2 years, of some kind of adjustment period in which we have to cope with the present and continuing, I expect, world excess capacity and surplus in agriculture.

I think it is a mistake to sell to the American farmer the idea that these negotiations are going to solve their problems by 1988; because if that does not happen, I think there is going to be a feeling on the part of the American farmer, well, this did not happen and therefore let us give up the whole process. That, I think, would be a mistake for the long run.

I just do not think it is possible to negotiate that fast and expect results that will appreciably improve the well-being of your farmers and other farmers in the United States in a year or two. I think over the long run the results can be very important, but not in the next—in my view, you cannot expect serious and significant impacts on world trade in as little as 2 years.

Senator Boschwitz. I think that some of our farmers have already given up, so to speak. I hear what the results of the wheat poll are. They just want a high domestic price, the hell with world trade.

I think they are making a mistake, but it looks like that is the way it is coming down.

Fred, we will turn to you, and I know that you have rather long testimony. I think we have some time.

Mr. Sanderson. I will summarize it, Mr. Chairman, in the time that you can give me.

Senator Boschwitz. Since I am here alone, we do not have too many Senators that will extend the questioning time. So take what time you need. I would like to be done with the hearing about 12:30 or 1 o'clock at the latest, and we have two more witnesses.

Mr. Sanderson. All right. I have submitted detailed testimony.[9]

Senator Boschwitz. I will read it.

STATEMENT OF FRED H. SANDERSON, SENIOR FELLOW, NATIONAL CENTER FOR FOOD AND AGRICULTURAL POLICY, RESOURCES FOR THE FUTURE

Mr. Sanderson. Which is in the nature of a roadmap, if you like. It does point out some of the things that I think are achievable in the upcoming multilateral trade negotiations. And then I have flagged some of the traps I see on the way.

I am not going to dwell on the latter part of it, but I will concentrate in my oral statement on what I think can be achieved.

Clearly, from what the preceding witnesses have said, there are two high priority items that we have to deal with in the negotiations: One is the export subsidy question, and I commend the administration for not being intimidated by the resistance which expectedly we are encountering on the part of the European Community; and the other problem is market access; and I should add a third major problem, and that is dispute settlement. All of this has been mentioned by previous speakers, and it is quite clear that we have to address these issues.

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[9] See p. 508 for the prepared statement of Mr. Sanderson.

Senator BOSCHWITZ. Secretary Amstutz adds a fourth by setting standards.

Mr. SANDERSON. That is right. I have not dealt with that problem, but I do recognize it as a serious problem which should be covered, also.

Senator BOSCHWITZ. And also sometimes a fifth, and that is production incentives.

Mr. SANDERSON. Yes. Yes.

Clearly, what we have to do in these negotiations is to avoid a trade war that could become extremely costly to taxpayers and consumers in the countries concerned. I think that paradoxically the prospects for reaching an accommodation in these areas may have improved precisely because of the aggressive stance adopted by the United States and because of the mounting budget costs of present policies,

We should seize that chance to negotiate an interim solution that could be in the nature of an armistice or standstill until circumstances become more favorable for the liberalization of agricultural trade.

And you will note that I make a distinction here between accommodation and liberalization. Accommodations are deals among governments designed to resolve conflicts pitting their producers against each other. They usually avoid significant reductions in producer protection. But we always need to remember that the ultimate purpose of the GATT is liberalization; that is, the reciprocal reduction of protection as you have suggested.

That a reduction of protection is needed cannot be doubted. Rough calculations show that the annual cost of agricultural commodity support programs to taxpayers and consumers in the industrialized market economies has now reached $125 billion.

Unfortunately, the chances for liberalization of agricultural trade are not favorable for this upcoming round. They looked a lot brighter 1½ years ago when both the United States and the EC seemed to be moving toward greater market orientation.

If you had asked me to testify at that time, I probably would have exuded optimism. That was the time when the administration proposed to phase out all market-distorting Government interventions over a period of 5 years. The administration's domestic proposals lent credibility to a trade policy stance that would rule out export subsidies of all kinds, convert import barriers into tariffs and negotiate them down as was done with industrial tariffs—all on a basis of reciprocity. That position is consistent with our general trade policy and with the principles of the GATT. It is also in keeping, I think, with the long-term interests of American agriculture. Needless to say, the 1985 farm legislation has compromised this position. Across the Atlantic, the European Commission's green paper, which proposed a shift from price supports to more selective and less market-distorting forms of assistance to farmers, likewise was successfully sandbagged by the European farm lobbies.

Clearly, any significant liberalization of agricultural trade will have to await a resumption of the drive for domestic policy reform, here and abroad. I believe that time will come—perhaps sooner than we think. But in the meantime, I am afraid all we can hope for is a reaffirmation of agricultural trade liberalization as the ultimate goal. Perhaps we can negotiate a cap on Government expenditures on farm commodity support or a cap on the so-called subsidy equivalent.

Some people say maybe we can even agree on a timetable for a gradual reduction of these overall indicators of agricultural protection. Even if we succeed in that, it is not going to be of tremendous value because, with the level of subsidization, the level of the public expenditures that we experience now, such an overall agreement will still leave plenty of room for trade-distorting policy changes.

Senator Boschwitz. May I interrupt you? Do you feel that the 1985 farm legislation was not as good from the standpoint of clearing the decks on liberalization of trade as the original Reagan offer was, and that was to more or less cut off farm programs in a 4- or 5-year period? But do you think that the farm bill acts as an impediment because of the larger subsidies to the producers? Or has the farm bill made it more expensive for some of the principal players in the world to continue the program as it exists, and therefore lead perhaps to some type of accommodation?

Mr. Sanderson. What I am saying is that the farm bill can be helpful and probably is helpful in doing what we now propose to do: Get the other parties to the negotiating table and negotiate an accommodation.

Where I think the farm bill is not helpful is in making progress toward true liberalization; that is, making progress toward a reduction, a significant reduction in levels of protection. That, I think, we have pretty much lost.

Of course, what the United States does is not the only thing that matters in this business. What the EC does is equally important. And I see the same retrogression on the other side of the Atlantic that I see over on this side. Unliberalization.

Our first order of business, I think, should be to preserve and build upon those GATT rules applying to agriculture that have been or could be valuable to the United States in fending off harmful action by a trading partner. I think what is worrisome is that there is a certain disillusionment with the GATT in our farm community and beyond. But we need to remember that we have achieved certain gains in the GATT which are worth preserving.

We need to remember that once a trading partner has entered into a commitment to admit a product free of duty—as the EC did in the case of soybeans—it cannot renege on it without offering acceptable compensation or face retaliation. This concept also applies if a trading partner adopts measures that impair the value of a tariff binding or other trade concession, such as a tax on soybeans or a preferential arrangement with a foreign supplier as in the case of citrus. It should also apply to subsidies stimulating domestic production at the expense of imports. I am a bit surprised, frankly, that we have not made more of the very substantial domestic subsidies for oilseeds in the European Community, which are as effective in restricting our exports of soybeans as could be direct trade restrictions. The underlying principle here is that compensation is due whenever the balance of rights and obligations is disturbed.

In the absence of formal bindings concerning specific products, import restrictions are permitted to protect domestic agricultural programs, but the agreement provides that domestic production must also be restricted and that imports not be restricted more severely than domestic production. And on the export subsidy side, primary products are exempted from the ban on such subsidies provided that export subsidies not be used to acquire more than an equitable share of world export trade in the product in question.

Now, it is true that equitable share is somewhat vaguely defined in terms of shares in a previous representative period and further qualified by references to possible special factors, but the intention is fairly clear, that export subsidies not be used aggressively. The underlying principle concerning both import restrictions and export subsidies is to maintain proportionality in the treatment of domestic and foreign interests.

Most of the effort of the GATT Committee on Trade and Agriculture in the past 2 years has been devoted to searching for ways in which articles XVI and XI could be strengthened. The deliberations are exploratory and inconclusive, but I will give you one example of what I think can be achieved, and that is in the area of export subsidies.

I think that it should be feasible to define equitable share unambiguously in terms of some recent representative period. We should strip away all qualifications such as the reference to special factors, and we should abandon attempts to roll back the base to some hypothetical golden era that was free of market distortions. We should define export subsidy and the U.S. obligations under article XVI. Obviously, there will have to be some give and take here if we are to settle this issue. Budget constraints may lead the EC to agree to a cap on its wheat, flour, and/or total grain export shares based on a recent representative 3-year period.

What could the United States offer in return? We would probably wish to avoid becoming subject to a cap on our export share, although one based on 1980 to 1982 would not seem to be overly restrictive. However, we could offer to terminate our Export Enhancement Program, which in any case has proven to be of little value to us, and in fact a source of embarrassment. We could offer to have a panel of independent experts examine whether our domestic deficiency payments/acreage reduction programs provide a net stimulus to production and exports, compared to what would happen without Government intervention. And we could offer to negotiate an agreement on export credit terms.

I do agree with Mr. Hathaway that our domestic subsidies probably will have to be a matter of discussion. But at the same time, I think, we should make the most of the fact that we alone—except for milk in the European Community and Canada—are requiring our farmers to limit their production, a requirement which some analysts have shown approximately offsets the production-stimulating effects of our deficiency payments. So all this does belong on the table, and I would hope on that basis a modus vivendi could be negotiated.

I am simply now going to list the headings of some of the other areas which we need to negotiate: Market access, I have mentioned———

Senator BOSCHWITZ. Where are you?

Mr. SANDERSON. Do you want me to talk about it a little bit?

Senator BOSCHWITZ. No, no. Where are you in your paper?

Mr. SANDERSON. I am talking from a summary.

Senator BOSCHWITZ. Fine. That is perfectly all right. I will read it. Market access.

Mr. SANDERSON. Then there is the possibility of converting certain quotas to tariffs, an interesting proposition particularly when it comes to Japanese beef import quotas.

Senator BOSCHWITZ. What do you mean convert quotas to tariffs?

Mr. SANDERSON. Well, it has been shown that if the Japanese were to give up their import quotas on beef and instead impose a tariff which would be high enough to pay their beef producers a deficiency payment, which would maintain their producer price, because of the high elasticity of demand for beef in Japan, that would allow the consumer price to drop sufficiently to substantially increase consumption and more than double imports of beef. So nobody would lose. The Japanese consumer would gain, the Japanese producer would not lose. There would be no significant cost to the Japanese treasury.

Senator BOSCHWITZ. But the deficiency payments?

Mr. SANDERSON. They would be paid out of the tariff.

Senator BOSCHWITZ. The tariff.

Mr. SANDERSON. That is right. And obviously, foreign suppliers would gain an expanded market. It is possible only where the price elasticity of demand is very high.

Senator BOSCHWITZ. I am always suspicious of these nobody losing things.

Mr. SANDERSON. Well, I will tell you who would lose, the Japanese middleman. I have not considered his interests in this equation.

On the dispute settlement procedure, I think there is one essential reform that has to be made, and I believe the United States has shown the way when it unilaterally retaliated against the European Community when the European Community blocked the panel decision on the citrus case.

I think what we should aim for in the negotiations is an arrangement by which, except in very exceptional circumstances, governments will accept the panel decision as an arbitration judgment. And if within 60 days no council agreement can be reached, then the complainant party should have the right to retaliate. That, I believe, would provide an increased incentive for parties to offer compensation in order to avoid retaliation.

The traps I am cautioning against are multilaterally agreed reductions in crop acreage, international price and market-sharing agreements, privatizing export subsidies, which is a favorite idea over in the European Community.

Senator BOSCHWITZ. What does that mean?

Mr. SANDERSON. An example are the EC's coresponsibility levies. You make producers help finance your export subsidies, and producers, of course, would attempt to shift that increased burden to the consumer. And that would reduce consumption and probably add to the surpluses.

It is an idea which comes to mind when you are under budgetary pressure, but I do not think it would improve our international relations if we were to legitimize dumping, which is what this really amounts to.

I would not trade U.S. restraints on exports of grain substitutes for some vague assurances by the European Community to change their grain production incentives. There are too many loopholes, and I think that it is better to hold on to the bird in hand rather than trade it for the bird in the bush.

And I am taking a skeptical view of the proposal to harmonize agricultural policy. That is explained in some detail in my paper.

To sum up, I believe that we should aim for an interim modus vivendi in this round to protect past gains, to search for compromise solutions on export subsidies, market access and dispute settlement, and to leave more ambitious liberalization objectives for a time when both the United States and the European Community have made progress in reforming their domestic policies.

Senator BOSCHWITZ. I will read your testimony in its entirety. I ask you the same question that I asked Mr. Hathaway, and that is, what do you think? Are you optimistic that these rather modest results that you have now hoped for will be forthcoming? And do you think it possible it will go beyond that? Or is that the most reasonable thing to hope for?

Mr. SANDERSON. I think there is a glimmer of hope for accommodation—damage control, some people call it. I do not think there is much hope for true liberalization, but if Dale Hathaway is right about the length of these negotiations, perhaps we are going to get a completely different Farm Act within the next 10 years. And, of course, that could be a completely different ballpark.

Senator BOSCHWITZ. Well, I hope that Dale is right that the negotiations will be so protracted, and Secretary Amstutz, of course, has indicated that they want to drive it to a conclusion. I suppose that they have a sense of their own limits, time-wise. It is my hope that we will be able to achieve as much as possible.

Well, we thank you very much, and we ask that Mr. Saylor and Mr. Heron now come forward. We know that you have been patient with us during the course of the morning. We are going to have to inform witnesses of the order of events so they do not have to sit so long. We know how interesting these hearings are to you, but we at least want to give you the option of not having to stay the whole time.

We will first hear from Mr. Saylor and then Mr. Heron.

STATEMENT OF THOMAS R. SAYLOR, CONSULTANT, NEW YORK, NY

Mr. SAYLOR. Thank you, Mr. Chairman.

I am pleased to have this opportunity to present some of my views on agriculture as we approach the new round of trade negotiations. Having participated in the last round as a negotiator, I am well aware of the importance of at least beginning to develop a consensus as we approach the negotiations.

Senator BOSCHWITZ. I think I met you once with Mr. Wolfe also. Were you there?

Mr. SAYLOR. That is right. I was in the previous administration. I would like to make a couple of points and submit my full testimony for the record, with your permission.[10]

Senator BOSCHWITZ. Certainly.

Mr. SAYLOR. The first point I would like to make is that we need to be pragmatic about negotiations. Perhaps one of the problems is that we start out the negotiation promising more than realistically can be delivered. I think there are a number of factors which are going to make it extremely difficult in this round of trade negotiations to see headline progress. Certainly, the lingering high unemployment in many countries around the world, monetary instability, volatile shifts in exchange rates and so on are some of the factors that I think make progress very difficult. The fact that centrally planned economies and the middle income developing countries are playing an increasing role in world trade, coming from very different perspectives, in terms of their economic systems, makes it all the more difficult to integrate these nations into the international trading order.

But despite the difficulties, I think that the trade negotiations themselves are essential given the importance of maintaining at least some sense of order that would provide a basis for the expansion of trade.

A number of people have described the GATT as the only show in town, and that is probably a fair way of describing it. I cannot imagine a world trading economy without some sort of a framework, and the GATT is the reasonable compromise that permits countries to rationalize their policies in some directions that will, hopefully over the long term, present an opportunity for expanding a common basis for international commerce.

Despite the difficulties of trade negotiations, I think that there are some optimistic signs, at least for agriculture, as we approach a new round. Several witnesses have mentioned the increasing costs on both sides of the Atlantic of farm programs. I think that represents some impetus for change. The instability in commodity markets and oversupply that are affecting many exporters put pressure on governments to look for ways to rationalize their national policies, and hopefully, within the context of the multilateral round of trade negotiations, we can begin to undertake commitments which will be to the long-term benefit of all concerns.

One thing, though, as we look at the agenda for trade, is the need to avoid the quick fix. I wish I had an answer to some of the difficulties that many producers of agricultural commodities are going through. But I think, in reality, there are no substitutes for patience and pragmatism. The Export Incentive Program, I feel, is unlikely to expand trade. The net effect of this program is simply to drive down world prices and increase program costs.

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[10] See p. 521 for the prepared statement of Mr. Saylor.

Of course, over time, if we are willing to pit our treasury against the treasuries of the other exporting countries, we may eventually bankrupt some other countries. But we have got to remember the United States is the largest exporter, so for every dollar we spend subsidizing our exports, it is only cost 60 cents to the European Community, for example.

Senator BOSCHWITZ. Indeed, probably less. Because they do not have deficiency payments on production.

Mr. SAYLOR. Exactly.

I would reemphasize some of the points made by the earlier witnesses on our willingness to put our own programs on the table. We talk about a level playing field, but it depends, of course, which end of the field you are looking from. There are many of our own programs which distort trade, and I would point out, that many of the countries that depend on export of agricultural products to earn foreign exchange to import agricultural commodities from the United States are some of the most important future growth markets for the United States; and that is the middle-income developing countries.

Senator BOSCHWITZ. They were just in, some of them, talking to me because of sugar.

Mr. SAYLOR. Exactly.

Senator BOSCHWITZ. They cannot get the incoming volume of stuff.

Mr. SAYLOR. Exactly.

In terms of some of the actions that might be undertaken as we approach the new round, I think the first and most pressing problem is the instability in international commodity markets. By and large, I think that the instability, particularly in grains and oilseeds, has to be dealt with as a commodity. I think in parallel we should be pursuing reduction of import barriers, but the fact is that the type of adjustments that are going to have to take place to bring order in these commodity markets are basically adjustments that relate to national systems. And I think that those commitments are best taken in the context of the commodity approach to negotiations.

This does not necessarily mean that we are falling back on the old commodity agreement approach that characterized past negotiations, with fixed price commitments, which I do not think are likely to be very effective. But it does suggest that we have got to get over the ideological opposition of talking about commodities on the basis of the commodity approach to negotiations and address national programs through negotiations with a sector focus.

The other thing I would say in terms of approaching commodity negotiations is that, by and large, the process has to begin by a focus on the major exporting countries. I think it is just a fact of the process that it is going to be easier to reach consensus first among the exporting nations, and eventually expand the consensus to the importing nations, while at the same time, of course, keeping in mind the special interests of importers.

Senator BOSCHWITZ. Why do you say that?

Mr. SAYLOR. Well, I led the delegation to negotiate the last international wheat agreement in which we sought comprehensive economic commitments. We had about 60 countries around the table trying to reach a consensus.

In reality, what happens in the process is ultimately the exporters get together and decide what they can agree on. They have to, of course, keep in mind that the importers are going to have to sign off on the agreement.

But to try to reach an agreement from the beginning with 60 countries around the table trying to represent their disparate self-interests is a pretty unlikely process.

So in reality it is a process of consensus building. In some respects, I think the trade negotiations really begin, to a large extent, in the bilateral discussion between the major developed countries as the major players in world trade. And as the major players can agree on some general rules, then a consensus can be expanded to other countries.

Senator BOSCHWITZ. That has been brought up before, too. What is your opinion of the possibility of the United States and the European Community coming to some kind of accommodation with respect to export subsidies, perhaps on the second round production subsidies? In the event that were to happen, that would be a gargantuan step forward.

Mr. SAYLOR. I do not think that there is going to be anything that we can claim as dramatic progress on that matter out of the coming round of trade negotiations. I think we can start a process out of the coming round of trade negotiations that will eventually lead to a rationalization of the policies.

Senator BOSCHWITZ. On a bilateral basis, do you think that we can do that with the Europeans?

Mr. SAYLOR. I think it is going to be primarily on a bilateral basis.

Senator BOSCHWITZ. What do you think the hope for such a conclusion is?

Mr. SAYLOR. The most optimistic hope I have is that they realize that their farm program costs are becoming excessive and need to be dramatically realigned—we have talked about the program costs bringing the EC's Common Agricultural Policy to its knees. I do not think that is going to happen.

What has changed is the fact that the program costs have forced governments to go back to member countries now to increase the taxes to support the agricultural policies. That has increased the debate, certainly, in the community and slightly shifted the politics and favor of some change, some rationalization in the Community's agricultural policies.

The politics which protect the current system in the European Community is unlikely to become undone overnight, but I think that we can gradually see a shift in their policies, things like at least some responsibility being shifted to producers to bear the cost of overproduction. It may not be the exact mechanism we use in the United States, but the effect, hopefully, is in the same direction; that they begin to rationalize production to world supply/demand conditions.

In addition to addressing specific commodity problems, I do think that there is the traditional horse trading of reducing tariff and nontariff barriers as a necessary part of the process, and I hope we can make some gains. I think that there are gains to be made for agriculture, although again, I think that the more serious problems as related to agriculture are more rooted in national support programs and more easily dealt with on a commodity basis.

Health and sanitary restrictions, again, a major barrier to expanded trade in many parts of the world. Chipping away at these trade barriers, I think we continue to deal with this both bilaterally and multilaterally. We should continue to try to establish some sort of common approaches which will contribute to a coordinated way of standardmaking or rulemaking as it might affect trade.

Frankly, I did not particularly agree with the course we took on the GATT provisions on subsidies, in the last round of trade negotiations in trying to refine the current article XVI. I think we should simply move in the direction of outlawing export subsidies and focusing on the transitional programs that countries might undertake to rationalize their national policy. But simply trying to define the rules under which an export subsidy might be permissible, I think, is going to be a pretty fruitless process.

Dispute settlement mechanisms, I think, are a very important part of the upcoming round of trade negotiations, but I really feel that people have to recognize the GATT for what it is; and that is, it is a political institution that exists at the will of the contracting parties. If we force nations into corners that politically they cannot move, they are naturally not going to take actions which are against their domestic political self-interests. In such cases, if it is in conflict with the GATT, we are likely just to undermine the respect for the GATT in general.

I think the GATT is most useful as a broad, general set of goals toward which nations should be rationalizing their policies rather than expecting it to be sort of a world court of trade, which it cannot be. Nations will simply ignore the judgments of the GATT if they feel they do not have political room to respect it.

Finally, what should we do if talks fail? I think we have got to continue talking. I think the strength of the international trading system is dependent upon a framework of rules on which particularly the new participants in world trade—middle-income developing countries, centrally planned economies—can shape their trade policies. I think that the GATT, while far from being perfect, has represented a reasonable framework for the rationalization of policies over the years. And while gains may not have been dramatic in the past, nor do I expect gains to be dramatic in the future, any sort of incremental improvement to the GATT, to the trading system, to the reduction of trade barriers should be considered a success in itself.

Senator BOSCHWITZ. Well, I thank you very much, Mr. Saylor and I sometimes think about these matters that the economies of the world have to recover first; and in the event they recover and demand heightens a little bit so that we are not all scrambling over the same—not smaller market, but smaller in the sense that production is growing faster than the market itself, I think that under present circumstances it is somewhat more difficult to negotiate these things away than it is under better economic circumstances.

Mr. SAYLOR. I would very much agree.

Senator **Boschwitz**. All right. We now call on Mr. Heron. Mr. Heron, you are from Heron, Burchette, Ruckert, and Rothwell. Is that a law firm?

Mr. **Heron**. Yes, it is, Mr. Chairman.

Senator **Boschwitz**. Most everything in Washington is a law firm. But my friend from the Foreign Agriculture Service, Dick Smith.

Mr. **Heron**. Dick Smith, that is correct.

Senator **Boschwitz**. He was in my office yesterday, and we always talk. He has been a very helpful person over the years.

STATEMENT OF JULIAN B. HERON, JR.

Mr. **Heron**. Thank you, Mr. Chairman. And let me thank you and the committee for holding these hearings.

It is terribly important at the outset of any negotiation to take the time to prepare thoroughly, because preparation almost always dictates the results. Often when a massive undertaking like trade negotiations are coming up, it is possible to overlook the preparation. The fact that you and your committee are undertaking to get that in perspective is very important. It is important that the committee and the agricultural community keep a vision of what it wants the negotiation to produce, rather than get lost in the details.

If it is agreeable, Mr. Chairman, my entire statement will be submitted for the record.[11] I will go the points raised in your letter of invitation.

Senator **Boschwitz**. That will be fine, and you can be assured that I will read it.

Mr. **Heron**. Thank you, Mr. Chairman.

Before the negotiations begin, the United States must extract firm commitments from our trading partners that everyone will agree to look at all aspects of agricultural trade: Market access, competition, subsidies—whatever the issues are. If we lack that commitment at the outset, there is no possibility of having a successful conclusion. And although it may take a bit longer to begin the negotiations, the results are almost certain to be more satisfactory.

The EEC, for example, has continued to maintain in the preparatory committee that its policies are nonnegotiable. Brazil is another example of a country that has shown an intransigence related to its subsidies. If we start out the negotiation with the ground rules that not all countries have to participate fully, then there is no way to be completely satisfied at the end.

The United States is going to need to continue to strengthen its hand with its own aggressive program to counter unfair competition. An example of what is being done today positively to help the negotiations is the unilateral retaliation on pasta in response to the EEC practices on citrus.

The threatened retaliation in connection with both the canned fruit case and the accession of Spain and Portugal have all led to creating a climate where not only the Europeans, but other trading partners, can see that the United States is not going to continue to conduct its trade practices as it has in the past, thus adding incentive for our partners to think about seriously negotiating.

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[11] See p. 526 for the prepared statement of Mr. Heron.

It appears now, at least as of today, that additional retaliation is going to be necessary in the citrus case, and that undoubtedly will lead to another round of retaliation by the Europeans. They announced the products they would retaliate on yesterday, and that probably will lead to a third round by the United States.

All of that is necessary, because if one examines the conversations and the negotiations taking place over what is called the citrus dispute, what is found is in fact an MTN that is taking place right now. The negotiations over the citrus dispute have the form of really nothing more than a test of wills between the Europeans and the United States to determine who is going to prevail in the MTN. So I would commend that negotiation to your committee, because it is believed that what is taking place there is far more important to the outcome of the MTN than probably to the commodities involved.

The new Targeted Export Assistance Program and the Export Enhancement Program underscore the strong U.S. commitment to agricultural exports and to making our trading system work in the face of foreign unfair competition. Every effort must be made to preserve and enlarge these programs.

The Targeted Export Program is having a tremendous effect for commodities, and the countries that take advantage of U.S. farmers are beginning to notice that the impact is there. It may not have risen to a political notice yet, but certainly in the commercial arena it is very definitely there.

These and other unilateral responses are believed to be the best way of demonstrating to our trading partners the errors of their ways and attracting their interest in new negotiations. It is important that we keep in mind in these negotiations, and sometimes we tend to forget, that we are dealing with sovereign countries that can do whatever they please, and as a general principle, are going to do what they see is in their self-interest. And so we have to create a trading climate that makes it in their self-interest to negotiate with it. And if it is not in their self-interest, they are simply not going to do it.

When the advance work has been undertaken and the climate is properly created, then we can look forward to a successful negotiation. In the past, agriculture has not done well partly because of the insistence of our trading partners on isolating agriculture, and partly because of negotiating more relaxed rules of trade for farm commodities. The rules that resulted often were so loose as not to be enforceable.

Our foremost goal in this negotiation must be to establish a trading system that allows the United States to benefit from comparative advantage. The goal of our trading partners is going to be to have a system result that promotes and rewards contrived advantage. And that is the real issue that we are going to have to face.

If we are going to accomplish this goal, all sorts of tariff and nontariff barriers will have to be prohibited. The chief, of course, is subsidies. We are going to have to directly address the issue of subsidies and should have a result that all subsidies are outlawed and treated just as the industrial rules are.

Further if we are going to accomplish a short negotiation of the 2-year variety that has been described, we have got to change our negotiating philosophy. We have taught our trading partners over the years, both in bilateral and multilateral negotiations, that the longer they can drag out a negotiation, they will not only enjoy the benefits of whatever they are doing during that time the negotiations are in progress, but virtually always the end result will be a cheaper payment—cheaper meaning that the United States agrees to accept less as a resolution of the issue than it originally asked for.

We need to reverse that process and have the United States say "Today if you wish to settle, we will settle for, say, five. Tomorrow, if you want to wait until tomorrow, the price will be seven. And the day after that, it will be nine." This, in very simple terms, is an interest theory like that used in our commercial dealings worldwide. If someone creates disruption, generally the price of resolving that disruption includes interest, the price for delay.

In our trade negotiations, we go the other way. We reward delay by accepting an easier solution. And in doing that, we encourage lengthy negotiations. We need to reverse that trend if we want to have a good result.

We have got to address safeguards and phytosanitary issues, because in all likelihood, the phytosanitary issues will be the biggest barrier to agricultural trade in future years. They are the most difficult issues to deal with. They are harder to see and harder to grasp, and more countries are going to address them.

If through this process we can impose a cost on our trading partners so that they can realize it is in their self-interest to eliminate that cost, they will come willingly to the table, they will negotiate in good faith, and the result will be positive. If we fail to create an atmosphere where there is a cost imposed, the results may be as past negotiations have been.

I thank you, Mr. Chairman, and would be happy to answer any questions.

Senator BOSCHWITZ. All right. I find your remarks and your approach quite interesting from the standpoint of abbreviating the negotiations and causing penalties on extended negotiations. It is a little different approach than we have heard during the course of the morning. I find that very helpful and interesting.

I have no further questions, and unless either one of you have further comments, we will adjourn the hearing.

Mr. HERON. Thank you.

[Whereupon, at 12:37 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

JUNE 3, 1986 HEARING

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Mr. Chairman, I am pleased to participate in today's hearing. Entering a new multilateral trade negotiation obviously requires extensive preparation, and congressional hearings are an important first step.

Today's topic, along with the other hearings you have planned in this series, will begin to provide U.S. negotiators with the input that they will need throughout these trade negotiations. In fact, establishing productive channels of communication between U.S. negotiators, the Congress, producers, exporters, importers and consumers must be a priority as we enter these new talks.

Good communication makes better trade policy. That is why in April 1986, I held a hearing in Sacramento on international agricultural trade issues, including the new GATT round, the U.S.-Canada free trade agreement, and the enlargement of the European Community. Those hearings provided me with excellent testimony from farmers and agricultural organizations involved in international trade. For example, the California State World Trade Commission and the California Farm Bureau witnesses who appeared at my Senate Agriculture Committee hearing in Sacramento provided valuable insights on agricultural priorities in a new round.

I believe that in a new round of international trade negotiations, agriculture promises to be as contentious as ever. Agriculture has historically not fared very well in GATT negotiations. The danger always exists that agriculture can be offered as the "sacrifical lamb" to achieve nonagricultural concessions. For these reasons, agricultural interests must organize to defend and promote their objectives in a new round.

A high priority for agriculture in the new round is to improve the framework of the GATT, in particular the dispute settlement process and the codes of conduct. We must put some teeth into these mechanisms to gain respect for and adherence to their rules.

A major problem plaguing the dispute settlement process is the length of time that it takes to resolve a case. The dispute settlement procedure must be accelerated significantly. We would explore the possibility of using U.S.-established time lines, similar to those in our domestic trade laws, and apply those to the international dispute settlement process. In addition, establishment of permanent panels should be explored as a means of streamlining the panel selection process.

Procedural maneuvers are often used to subvert the intent of the process. One possible change to consider involves the procedure by which GATT panel reports are adopted. Rather than strict consensus, perhaps consensus minus the vote of the disputants is a viable option. A voting procedure requiring something less than unanimity could be explored, as well.

Finally, the lack of compliance with the findings of the GATT is the most blatant problem. The GATT dispute settlement process is often totally ineffective, since it is virtually impossible for the GATT to penalize a nation for rule violation.

To make the process fairer, either the panel's findings should be binding or the disputants should be excluded from the panel report procedures. Once the GATT has accepted the verdict of one of its panels, there must be some enforceable time limit for the losing party to take action. Failure to comply would invite legitimate retaliatory action to counter the unfair practice.

Of course, a fundamental philosophical question underlies any changes to the GATT dispute settlement process: Is it to be a consultative, conciliatory process or will the contracting parties agree to abide by decisions made through arbitration and sanction powers granted to the GATT?

I fully realize that a move towards a more definitive role for GATT panels is not universally shared. For example, the EC often contends that the GATT cannot be compared to a court. They argue that it is a contract between 90 separate countries which still retain their national sovereignty. The EC feels that GATT panel reports should be taken as a basis for consultation and further negotiations, not as decrees from some imaginary world court. Technically, this may not be an incorrect interpretation; however, until participants agree on the purpose and powers of the GATT process, we cannot expect dispute settlement to work.

On the subject of subsidies, disparate interpretations of what constitutes a permissible subsidy under the GATT have resulted in tremendous tension between the United States and the European Community. The importance of the elimination of trade-distorting foreign practices cannot be over-emphasized. Certainly, within the existing subsidies code, there must be greater clarity of the definition of illegal agricultural export subsidy practices.

It is the term "equitable share of the world market" in the subsidies code that creates problems. This definition represents more of a goal than a standard. Many GATT members--and foremost among them our European competitors--do not agree on what constitutes an equitable share of the market or whether any market share gained through subsidies is necessarily inequitable. When rules are as loosely defined as for agricultural export subsidies in the code, it becomes unrealistic to expect an offending party to accept dispute settlement findings based on such subjective definitions.

With the new trade round clearly on the horizon, we must assure that the needs of American agriculture are a top priority of our U.S. negotiators. Work must be undertaken now to catalog foreign market constraints by commodity and by country.

The U.S. must work now to develop a strategy to extract concessions from targeted countries, whether by offering additional U.S. concessions or by threatening to withdraw existing benefits. The

United States should explore using leverage, such as withdrawal of benefits granted under the generalized system of preferences to countries refusing to grant improved market access to American exports.

With much attention being dedicated to expanding GATT coverage to encourage trade expansion, the agricultural community must remain diligent to assure that it not end up as a net loser after the process is completed. Careful tracking of corresponding concessions must take place. Should trading partners fail to implement agreed-upon concessions, the United States must reserve the right to withdraw unilaterally its own concessions.

I commend Senator Boschwitz for holding this important series of hearings, and I commend the committee for its willingness to review carefully the outlook and negotiating objectives for agriculture in the new multilateral round.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: Agricultural trade issues were at the forefront of the debate on the 1985 farm bill and no doubt they will be of primary concern in the upcoming round of GATT negotiations. It is vital that we develop our perspective on the priorities to be advanced by our representatives at the upcoming summit.

Today's topic is of great importance, to our agricultural industry, to our Nation, our allies and the hundreds of millions in the underdeveloped world for whom mere existence is a struggle. As the largest and most efficient producer of agricultural commodities in the world, we are a player in this drama. Since the end of World War II, the United States has become increasingly involved at home and abroad working to increase world food production in order to meet the nutritional needs of Third World countries. Nevertheless, total food production in the developing world has barely kept up with growth in population over the past two and one-half decades. In Africa, per capita food production has fallen by 0.8 percent annually over the last 25 years. South Asia, where 65 percent of the developing world's population is located, has experienced a growth in production of only 0.3 percent a year over the same time period.

Experience has taught us that behind the broad goal of increased world food production lies many factors including:

(1) agricultural research leading to the development and application of new knowledge;
(2) improved transportation infrastructures linking farms to markets;
(3) a sound educational system;
(4) an effective input delivery system;
(5) a coordinated mix of price, investment and trade policies that provide incentives for farmers to produce marketable surpluses of food and agricultural products;
(6) employment opportunities for lower income classes to generate income.

And this just names a few. Our long term policies must take these factors into consideration if we are to help impoverished countries achieve increased production and meet the nutritional needs of their poorest citizens.

And we have a great deal at stake in helping the underdeveloped world to accomplish these goals. Our humanitarian concerns are tacit; we have a long history of commitment to help alleviate the suffering of those in the world less fortunate than ourselves. In addition, the economic progress of developing countries, spurred by agricultural sector growth, leads often to increased agricultural imports from the United States. Food aid, technical guidance and development assistance have led in many cases to the creation of sizeable markets for U.S. goods: Indian, Japan, and South Korea are excellent examples. The benefits in terms of encouraging political stability and sound political relationships, to speak realistically, cannot be overlooked.

Where does GATT fit in to all of this, we might ask ourselves? The benefits of free trade are obvious for developed nations, but the underdeveloped world can gain much as well. Through exports, developing economies generated necessary foreign exchange to pay for imports--trade barriers reduce their access to commodity markets and only hamper their efforts at economic growth. Free markets assist in providing food security through giving poorer nations, who do not have the resources to maintain emergency stocks, ready access to reserves held elsewhere in the world. GATT is our most important forum for reducing market barriers and promoting free and equitable trade, objectives which are in the best interests of every country.

I submit that in the upcoming round of trade negotiations we should make substantive efforts toward agreements on phasing out existing nontariff trade barriers and export subsidies, and working to achieve uniformity in enforcing food, plant, and animal health regulations. GATT should be strengthened to allow it to deal more effectively and expeditiously with the impediments which needlessly inhibit the health of international trade.

In the short-term, the developed nations will carry the burden of producing enough food to meet world demand. This may lead to domestic trade policies which are not necessarily conducive to a "level playing field" trade environment. For instance, subsidy programs of the EC and the United States provide a cushion for farmers as competition for new markets becomes more fierce. These programs are both costly and ineffective in dealing with the problems of world hunger.

In the long-term, we must pursue agricultural and trade policies which promote free-trade. We must avoid the temptations of the "quick fixes" of protectionist legislation and supply controls, and maintain an awareness of the impacts of our actions on the developing world. Abroad, we should continue to work to find creative solutions to the problems of economic development, and work, through GATT and all international forums, to promote free and fair trade among all nations.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Good morning. I am pleased to be with the committee this morning as it continues its consideration of agricultural trade issues. I want to commend Senator Boschwitz for his able leadership in this area and for planning this series of hearings. I am sure these discussions will greatly contribute to our understanding of these issues and prepare us as we embark on a new round of multilateral trade negotiations.

To paraphrase Shakespeare, "trade's the thing."

International trade is the most important topic we can discuss at this time. The success or failure of American agriculture hinges on the health of the world economy. In turn, the health of the world economy depends on the route we take over the next several months and years as we address the trade issue.

Either we can move forward with attempts to expand world trade--thus increasing markets for U.S. agricultural and other goods, increasing jobs, and increasing economic growth--or we can retreat into protectionism and see our markets lost, U.S. jobs lost, and economic growth stifled.

Whatever we do, we must not get lost in the rhetoric of free trade versus fair trade, open markets vs. protectionism. We must see the economic world for what it is. Diverse and competing interests--domestic industries, international corporations, sovereign governments--all tied together by trade. But the most important thing to understand is that we do not live in a world of free trade. Every nation restricts the flow of trade in some fashion or other, and for good reason.

What we must seek is an understanding of why each nation takes the position it does. We should look for advantages to the United States and to the advantages of its trading partners. In sum, the basic rule of mutual satisfaction must apply. This is basic tenent of the domestic marketplace. It should be the underlying theme for our trade policies.

But just as the American businessman drive a hard bargain, the United States should not be afraid to aggressively pursue its interests. We must be prepared to retaliate, provide export enhancements, and erection of barriers to trade if necessary. We will win new markets and more open trade only if we are prepared to be as tough a negotiator as our competitors.

Agricultural trade is especially important to my State of Florida. We are the gateway to the Caribbean and Latin America. Our semitropical environment provides us with a comparative advantage in the domestic production of citrus and other fruits, vegetables, sugarcane, and greenhouse nursery. Collectively, agriculture in Florida generates over $4.5 billion each year. Three quarters of that amount is pumped back into the economy on labor, equipment, and supplies.

But each of the agricultural sectors in Florida face stiff competition from producers in the Caribbean, Latin, and South America, and from Mexico. Often, the industries in these foreign nations are subsidized and less stringently regulated than our own.

Brazilian citrus, for example, enjoys a government subsidy. Florida citrus growers receive no income support from the Federal Government. Mexican tomatoes, as another example, are brought into the United States without undergoing the stringent marketing rules that are applied to Florida tomatoes.

I ask the committee to consider these USDA statistics with regard to the size and scope of Florida agriculture. Citrus production generates $825 million each year. Greenhouse nursery generates $750 million each year. Tomato production generates $371 million each year. Sugar production generates $350 million each year.

Employment in food and fiber industries tops 900,000 workers. This puts Florida in the top 10 States with regard to agricultural employment.

In the coming months, I hope we can work toward the expansion of U.S. markets for agricultural commodities. But we must also look to insuring that our domestic agriculture gets "mutual satisfaction" in any agreements we reach with out competitors.

I look forward to this series of hearings. I know they will be informative and will provide the Committee with all the relevant data as we prepare a strategy for expanding agricultural markets during the next round of GATT. Thank you.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, in view of the pressing need to maintain and expand export markets for U.S. farm products, the series of hearings that begins today can be of great importance. Recently, the committee conducted a hearing on actions of the European Community that threaten access to legitimate markets for U.S. farm exports. Today's hearing is a logical follow-up to that hearing, and I hope that the Committee's continued oversight on export trade matters will impress upon the administration the need for immediate action to increase export volume and use of export programs to counter or offset unfair trade practices of competitor nations.

The export market is shrinking fast, and the farmers in my home State of Nebraska, along with farmers across the Nation, have been badly hurt by the reduced sales opportunities. I share the farmers' frustration and disappointment over the failure of this administration to act decisively to shore up eroding export sales.

The agricultural export sales statistics become more grim every month. The U.S. Department of Agriculture lowers the forecast value and volume of farm exports with depressing regularity. Recent statistics from USDA indicate that agricultural exports in fiscal year 1986 will decline by some 12 percent from last year's depressed levels. As a result, the agricultural trade balance--at $7.5 billion--will be less than one-third the total of the balance when this administration took office.

Unless rapid and decisive action is taken to reverse the unhappy prospect that the United States may soon become a net importer of farm products.

Mr. Chairman, I hope that the witnesses, when discussing prospects for world food production, give some attention to the prospect of continued high-volume production in the United States when farmers are faced with shrinking markets and lower prices.

Mr. Chairman, I look forward to reviewing today's testimony.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, as ranking member of the Subcommittee on Foreign Agricultural Policy, I am pleased to have this opportunity to hear firsthand about the prospects for short- and long-term world food production from our distinguished panel of witnesses.

This is the first in a series of hearings in this subcommittee on agricultural trade issues. I believe that world agricultural trade should be among our top priorities in the Agriculture Committee and in the U.S. Senate. We face a drop in U.S. agricultural exports of 12 percent in the past year. If our farmers continue to be unable to sell their products overseas, their very existence is threatened.

I hope that the Administration will aggressively pursue these issues in the GATT talks. Thank you, Mr. Chairman.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I want to express my appreciation to you for holding this hearing. It is essential that this committee have the opportunity to thoroughly reivew the agricultural trade issues before the GATT meetings.

The current U.S. position in agricultural trade is disturbing, to say the least. There is a desperate need to rethink our agricultural trade policy objectives. The present policy is not working. American agricultural exports have declined drastically in both volume and value since 1980.

During the debate on the farm bill, we where told over and over that we needed an agricultural policy that would allow the U.S. producer to become competitive in world markets. U.S. prices were too high. The dollar was too strong.

Now, Mr. Chairman, commodity prices are lower, the dollar is weaker, but we are still not trading. I should clarify, Mr. Chairman, we are trading, but the United States is doing all of the buying.

Agricultural imports have increased from $16.2 billion in the 1978/79 marketing year to a projected $20 billion for the current marketing year. The projected agricultural trade balance is in the neighborhood of $8 billion, down from $26 billion in 1981.

I heard the former Secretary of Agriculture, John Block, state that the Food Security Act gave the USDA many of the new tools it needed to enhance the exports of U.S. farm products. The administration pushed for some of these "new tools" because these programs were in line with the free market or business approach to world trade. Every good business person knows that you must have a strong market development program to sell your product in a market with cut throat competition. Yet, 2 months after passage of the farm bill, the President sent to Congress a budget proposal that cut the Foreign Agriculture Service by 50 percent.

Mr. Chairman, we need consistent policies among the Department of Agriculture, State Department, OMB, Treasury Department, and the USTR if we are to be successful in the export of American goods.

We don't need the Treasury Secretary pushing for world bank loans that require our international competitors to further reduce export taxes that enhance their competitive position against the American farmer. We need American policies that benefit Americans.

Now Mr. Chairman, I am a believer in free trade, but I think that in free trade, there have to be willing partners. If, however, one partner is engaging in free trade and the other is not, then there are serious consequences. There is an absence of good faith and recirocity.

I believe the consequences are upon us. A national trade deficit of $145 billion indicates we are already in a trade war. I think the time has come to let the GATT negotiators know that this Committee feels that the United States should stop retreating and take affirmative action to bring about a counter attack on the predatory actions that have taken away U.S. markets.

I look forward to the testimony in this hearing today. Hopefully this hearing will provide the opportunity for the Senate Agriculture Committee to put together a unified position that we can present to the trade team before the next round of GATT. Thank you, Mr. Chairman.

[The following appendices were inserted by Robert L. Thompson, Assistant Secretary for Economics, U.S. Department of Agriculture.]

APPENDIX 1. FOREIGN COUNTRY RESPONSES TO THE CHANGING WORLD MARKET ENVIRONMENT OF THE LATE 1980'S AND EARLY 1990'S

I. Foreign Exporter Response--Summary

- The sharp decline in loan rates provided for in the farm bill, combined with a weaker agricultural-trade-weighted dollar, will eliminate much of the early 1980's incentive to expand production for export.
- Substantial idling of resources is not expected; however, the competitors are likely to stop or slow investment in new capacity while they continue to use the capacity on line.
- Changing world market price relationships will shift production patterns in several competitor countries.

CANADA

- Export prices are likely to be more attractive for oilseeds than for grains and encourage a shift in production toward rapeseed and sunflower seed.
- Exports of coarse grains are projected to fall by one-third by 1990 as increased domestic use related to expansion in the livestock industry allows less feed grain for export.
- The Canadian government is not likely to pass the entire drop in U.S. loan rates/market prices through to its producers initially. The Provincial governments are also likely to offer added

assistance in support of financially strapped farmers that will also slow adjustment.

- Wheat area will not fall dramatically since major producing regions lack economic alternatives. Wheat production and exports continue at about early 1980's levels.

AUSTRALIA

- Reduced market prices are expected to reduce grain areas as returns, already poor, shrink further.
- The Board's guaranteed minimum price will reflect some but not all of projected decline in prices and export receipts. Prices will fall sharply, however, for crops such as barley that do not have price guarantees.
- Some reduction in wheat is projected but most of the drop in area would be in coarse grains.
- Declining crop increase are expected to accelerate the move toward increased beef production begun in early 1980's. Also, prospects for wool prices remain relatively strong, encouraging expansion in sheep herding on idled cropland. Crop area is expected to be down 7 percent by 1990.
- Australia has potential to export sunflower and rapeseed. Weakening grain prices and returns could provide the impetus needed to build an export market for oilseeds.

EUROPEAN COMMUNITY

- Budgetary pressures will auger for change in CAP but reforms will be moderate and protracted given the nature of the decision-making process.
- Prices for cereals will fall over the period, probably in nominal terms but certainly in real terms, but not enough to induce a drop in area.
- EC is projected to continue on the upturned productivity trend of the 1980's. This will translate into increased productive capacity in grains despite stagnant grain area.
- The oilseed/grain price relationship will favor the substitution of protein meal for grains (wheat and coarse grains) in feed rations. Hence, the increase in grain use for livestock will be small and exports could increase 25 percent or more by 1990.
- Oilseed area, and more importantly yields, will increase in response to stronger producer price incentives. The stimulus for increased oilseed output will be similar to the 1970's grain stimulus. Self-sufficiency in oilseeds could increase from 9 percent in 1983 to 22 percent by 1990.

ARGENTINA

- Argentina is making the transition from taxing agricultural exports to a land-based tax system. Two effects are expected:
  (1) From a producer perspective, a lower export tax will offset part of drop in world prices and dampening any supply response to lower trade prices.
  (2) Export taxes acted as a production discentive while land taxes may spur added crop production by forcing idle land and other resources into use.

- Internal price relationships will favor oilseeds over grain and corn and soybeans over wheat.
- This suggests slow growth in Argentine grain production and exports. Wheat production and exports are projected to decline while coarse grains export growth will slow.
- Reductions in grain area will be partially offset by a switch to oilseeds, particularly sunflowerseed.

BRAZIL

- Brazil production response will be determined largely by internal decisions. Only soybean production and prices are strongly linked to world price movements.
- Corn support prices will remain above world market prices, lowering the soybean/corn price ratio in Brazil over the next 5 years.
- Soybean area will contract marginally. Production levels will increase but increased domestic use should hold exports of meal at about current levels and actually reduce soybean exports.
- Internal policy shifts likely to influence Brazilian agriculture in the next decade include land reform and shifting emphasis to food crops compared to "export" crops such as soybeans.
- Land reform will provide large landowners with added incentive to use idle land--a major force leading to expanded planted area over the next 10 years.
- Likely continued government austerity will constrain government support of agriculture over the next 5 years.
- Adequate food supply and stable prices have become highest priority. Priorities for extension and research have been shifted to food grains from other "export" crops.

II. Importer Response--Summary

- The lagged effect of investments and policy incentives implemented in mid-to-late 1970's will prevent any sharp decline in foreign agricultural production over the next several years.
- The after effects of the economic and financial reverses of the early 1980's pose difficult problems for many importing countries. Growth in supply in the importing countries, while remaining high for next few years, will slow as the next decade approaches.
- Because of the insulation of most importing country markets from world price changes, the short-term price responsiveness of the major importers is generally low. A sustained fall in world price will, however, generate a positive shift in long-run demand.
- Much of the import demand response over the next few years will be tied to uncertainty with regard to foreign exchange earnings and the continued heavy external debt burden.

CHINA

- Income-driven shift from rice toward wheat is projected to continue. Wheat import requirements will increase--possibly more than doubling over the next 10 years.
- This shift will keep China a larger rice exporter until the early 1990's.

- o Despite increasing productivity, growth in the livestock sector will outstrip China's potential for meeting domestic feedstuff needs. This will work to increase imports of coarse grains by 1990 and soybeans by 1995.

SOVIET UNION

- o USSR will continue to strive for food self-sufficiency and become less dependent on grain imports as the decade progresses.
- o Grain import levels will continue to be production-related but subject to stringent hard currency constraints over near term (1-2 years).
- o The Soviets will continue to be unable to meeting growing needs for oilseeds and products due in part to disease problems; sown area is not likely to return to 1970's level until the end of this decade. Import requirements to increase.

MIDDLE-INCOME EAST ASIA (Korea, Taiwan, Hong Kong)

- o Growth in the region's livestock sector is projected to moderate relative to the 1970's. Lower prices, however, will stimulate imports of feedstuffs. Coarse grain imports by the region could increase 50 percent over next 10 years.
- o The region's cotton-spinning industry will be under increasing pressure from low-wage, large cotton producing countries outside the region--India and China. Growth in cotton imports will be moderate.

SOUTH ASIA (India, Pakistan, Bangladesh)

- o The region's overriding policy goal will continue to be food self-sufficiency/food security.
- o Bangladesh is expected to encounter foreign exchange constraints over the entire 10-year period.
- o Food self-sufficiency policy will lead to slower growth in export production in India.
- o Pakistan will remain a net food importer. While sizeable production potential is available, deficiencies in extension, irrigation water management, seed breeding and distribution, and agricultural credit will prevent much of this potential from being realized.

JAPAN

- o Lower world prices, along with continued strong economic growth, will support a more rapid expansion of Japan's livestock sector. Imports of feedstuffs--coarse grains and soybean--will be 2 to 3 percent greater because of the lower world prices.

NORTH AFRICA/MIDDLE EAST

- o The region is relatively price and credit responsive.
- o Lower feed prices will accelerate livestock production. Domestic feedgrain production is small so import demand (feedgrains and protein meals) will increase.
- o Food grain imports influenced more by government policy than price. Reduction in oil revenues compared to the 1970's--the

basis for large consumer subsidies--will dampen import growth for wheat and rice.

SUB-SAHARAN AFRICA COUNTRIES

- The oil price decline will have greater impact on the region's imports over the next 3 years than will the lower world commodity prices.
- Potential benefits of lower foreign exchange expenditures by oil-importing countries will be outweighed by loss of foreign exchange earnings by exporting nations.
- The net effect for Sub-Saharan region will be a reduction in commercial agricultural imports. Nigeria, the largest rice importer in the region has banned imports of rice and vegetable oils.
- Increased imports in other countries will be heavily dependent on concessional sales.

APPENDIX 2. COMMODITY MARKET SUMMARIES

I. Wheat Market Prospects

World wheat trade in 1985/86, at 88 million tons, is the lowest since 1979/80. But sharply lower world prices will lead to a gradual pickup in world import demand. World trade is expected to increase an average of 3 million tons per year over the life of the 1985 farm bill with trade 20 million tons above 1985/86 by the end of the 1980's. Competition will remain fierce, especially in the first 3 to 4 years, but the U.S. market share will rebound from 28 percent in 1985 to 41 percent in the early 1990's.

Competitor Response

Competitors will be slow to adjust production and exports as they use various price and income programs to support their farmers. After 2 or 3 years of low prices and intense U.S. pressure via various export promotion programs, however, production will stagnate and the United States will capture all the year-to-year growth in trade. As the world supply and demand achieve a better balance and world prices began to rise, the competing exporters will again increase production and exports.

- Argentina--Sharply lower world wheat prices, especially compared to oilseeds, will lead to a fairly quick production response. A cut in their export tax will allow Argentina to compete temporarily. But after several years, low world prices and competitive pressures will mean a lower wheat area and less wheat double cropping with soybeans.
- Australia--Australia's moving average price formula temporarily insulates producers from lower world prices. The government will have to spend $A 350-400 million to underwrite the GMP for wheat for 1986/87 and 1987/88. As the continued lower world prices are reflected in farm incomes, wheat producers will divert area to alternative crops and livestock.
- Canada--Protection from changes in world prices is limited, and producer prices in Canada will adjust quickly to lower world prices. While some areas will shift out wheat into

alternative crops such as rapeseed and some marginal land will be abandoned, a lack of variable alternatives means that the long-run adjustment will be limited.

- Western Europe--In the shortrun the EC will increase its export subsidies and/or domestic subsidies. In the face of continued low prices, the EC will make gradual adjustments. Export subsidies will be reduced first, followed by the lowering of internal price supports.

Importer Response

- Despite lower oil export revenues, North Africa and the Middle East will be the major growth market over the next 5 years. Stagnant production and continued population growth of 3 percent annually will keep import demand rising.
- Production in the USSR and Eastern Europe is largely insulated from lower world market prices and will expand over the next 5 years. Soviet imports will drop by about 4 million tons, although there will be some small growth in East European imports.
- China's production will rise more slowly while demand continues to increase rapidly. Imports will rise 2-3 million tons from current levels by the end of the decade.

II. Cotton Market Prospects

Over the next several years world cotton imports will initially experience large growth because of low prices and pent up demand. Later, imports will begin to slow as textile production gradually migrates towards developing countries and the more developed countries slowly reduce consumption growth. As U.S. prices become more competitive, the United States is expected to immediately recover much of its previous 30 percent share of world exports. The full U.S. export share should be recovered within 5 to 10 years.

Through 1990, as excess world stocks are consumed, foreign production will remain about the same as in 1985/86 or possibly decline marginally. Thereafter, growth rates should accelerate again. Failing cotton prices, lower prices of cotton fiber relative to polyester, and rising consumer preference for cotton in textiles will push demand upward. Preferences are expected to continue to favor cotton. For at the least the first year and perhaps into the second year of the farm bill excess world supply will continue to hold prices down, favoring cotton, but gradually cotton prices will move upward again, possibly slowly reducing the substitution of cotton for polyester. However, for sometime prices are expected to remain well below those of 1983/84 and previous years.

Importers' Response

- Fierce export competition among major exporters will continue for the next 10 years as the United States, China, and Pakistan draw down stocks now equivalent to more than 1 year's domestic use for each. These exporters will increase both exports and their share of total exports as they gradually replace some medium-sized exporters.

- Among the other major exporters, Australia will reduce production and exports, substituting other crops for cotton. The Soviet Union is likely to increase the portion of its exports going to Eastern Europe in order to maintain its export earnings. And Egypt will increase imports of lower quality cotton in order to continue promoting its lucrative exports of extra long staple cotton.
- Many medium-sized exporters, including Brazil, Mexico, India, Turkey, Spain, Greece, and several other South American countries, will reduce exports as domestic textile production gradually rises.
- Other medium-sized exporters, such as the Sudan, the Ivory Coast, Chad, Mali, Burkina Faso, Cameroon, Tanzania, Zimbabwe, Syria, Paraquay, Nicaragua, and Guatemala, will continue trying to produce and export as before because their economies depend heavily on foreign exchange from cotton sales and lack substitute crops.

Importers' Response

- Major developed importers, such as the EC, East Asia, and Canada, will gradually reduce consumption and imports as their industries become less competitive.

  Other importers in Southeast Asia, Nigeria, and possibly including Eastern Europe, who like the third group of exporters benefit from lower costs of textile production, will slowly raise imports and consumption as industries expand.

III. Rice Market Prospects

World trade in rice is expected to increase from 11.6 million tons in 1985/86 to 13.6 million in 1995/96, up about 17 percent. Growth will be strongest between 1986-1990, increasing at 2.4 percent per year in response to lower world prices. As prices gradually rise between 1990-1995, however, world import growth is expected to slow to less than 1 percent. U.S. exports are projected to grow rapidly in response to sharply lower export prices brought on by the marketing loan program. U.S. exports are forecast to rise to 3.5 million tons by 1995/96, double the 1985/86 depressed exports. The U.S. market share is anticipated to rise from 15 percent in 1985/86 to 25 percent in 1990/91 and remain steady at 26 percent through 1995/96.

Importers' Response

- Most of the 2-million-ton growth in world import demand is expected in the Middle East and Africa. Imports by Western Europe and Asia may be steady, while Latin America's imports may decline.
- Many cash importers such the EC, Saudi Arabia, and South Africa are expected to return to the United States for their rice import needs, while U.S. Government export programs will continue to enable sales to developing countries, particularly in Africa.

Exporters' Response

- The competing exporters are mainly developing countries such as Thailand, Burma, and Pakistan which have very limited funds available to insulate their farmers from a decline in world prices.
- Thailand's farmers are expected to react to lower paddy prices by reducing input use and curtailing acreage planted to the dry season crop, a secondary crop primarily devoted to the export market. Thailand's exports are forecast to decline significantly from 4.0 million tons in 1985 to 3.0 million tons in 1995.
- Burma and Pakistan may not be as sensitive to the increased U.S. compeitition, because they export significantly different qualities of rice and their farmers are more insulated from changing world prices.
- Burma, which produces only low quality rice, is forecast to continue to supply other socialist nations such as Vietnam and the developing nations of Africa. Because Burma depends on rice for more than half of its foreign exchange earnings, the Burmese Government will attempt to expand the volume of rice exported to maintain export earnings.
- Pakistan will continue to emphasize production and sale of basmati rice, which commands prices up to five times more than other varieties in the lucrative Middle Eastern and European markets.
- China's rice consumption is projected to grow at a rate slightly higher than its rice production, gradually reducing rice available for export over the next decade.

IV. Coarse Grain Market Prospects

World trade in feed grains is forecast to reach over 126 million tons by 1995, increasing by 3 to 4 million tons a year. Growth over the first half of the period will likely be most rapid. The United States' market share is expected to increase slowly over the forecast period, from this year's low of only 48 percent to the 60 percent level of the early 1980's. The rate of growth will be higher in the first half of the forecast period than the latter; most of the increase in world trade will accrue to the United States.

Exporter Response

- Exports from the major foreign exporters are likley to grow by about one-half million tons per year--approaching 40 million tons by 1990, and almost 42 million by 1995.
- The keenest competition for the United States will continue to come from the European Community. No reform in the Common Agricultural Policy is expected. Forecast low world prices will have little impact in EC production as of a traditional high rate of return to cereal producers. Additional years of oversupply and large exports are likely.
- Increased demands from an expanding domestic livestock sector will change China once again into a net importer of coarse grains in the upcoming 5 years. Nonetheless, infrastructural

difficulties will continue, and the country will maintain some exports from the northern provinces. PRC exports in recent years have amounted at as much as 5 million tons annually.

- Argentina is expected to reduce export taxes on grain and will not likely face the farm financial stress and budget pressures of other competitors. However, significant area shifts away from corn into oilseeds are forecast. Exports of around 12 million tons are forecast by 1990, with annual increases of around one half million thereafter.
- With world prices falling more for coarse grains than wheat, barley production and exports in Australia are likely to fall. Signifant price reductions in Canada may not be politically feasible, although in the upcoming 5 years the country is likely to continue to export barley, sales thereafter may decline if economic pressure is great enough.

Importer Response

- Coarse grain imports by the importing countries through 1990 are forecast to reach almost 105 million tons--growing by about 4 million tons annually. Consumption gains will likely continue to be bolstered by improving macro-economic conditions--particularly among the developing countries. The LDCs will be the major import market as the rate of growth of consumption is almost twice that of production.
- Aggressive meat production goals by 1995 indicate the USSR coarse grain imports may average about 18 million tons annually by the end of the forecast period, at the level of the last several years, but ahead of earlier periods.
- Although domestic growth may be slowed by the global and domestic debt crises in North Africa and the Middle East, livestock in the region is expected to continue to expand--keeping imports growing slowly.
- Forecast lower meat prices in Japan may boost domestic per capita consumption. Coarse grain imports may rise by almost 7 million tons by 1995 to reach over 28 million. The U.S. share may reach 70 percent over the period, still lower than recent years, but still higher than the pre-embargo years of the late 1970's.

V. Oilseed Market Prospects

World import demand for soybeans is expected to remain relatively stable over the next decade, with the growth in U.S. soybean trade prospects directly realted to the drop in competitors' exports. Although the U.S. market share will remain near 77 percent of the world total, greater competition in the soybean meal sector will lead to a 3-percent erosion of the U.S. market share of world soybean meal trade over the next 5 years.

Palm oil production will continue to rise at a moderate pace, and along with a wide variety of high-oil content oilseeds, will generate an overabundance of vegetable oils, keeping prices depressed. U.S soybean oil stocks will remain record high because of the weak trade prospects.

Exporter Response

- Combined soybean exports of the competitors--Brazil, Argentina, China, and other Latin America--will decline, while soybean meal exports will expand.
- Argentina will expand oilseed area at the expense of wheat because of the new relationship of these crop's prices which favors oilseeds, a result of the new U.S. farm legislation. The expansion of soybean area in Brazil will not be as great because Brazil's policies are expected to favor grain area expansion.
- Argentina and Brazil will promote the export of the soy products rather than soybeans via differential export taxes. Thus, Argentina and to a lesser extent Brazil, will increase their share of soybean meal trade. Higher export revenues, the gain in value-added exports, and the limited storage capacity are incentives for these countries to export, even if they must cut prices.

Importer Response

- The Soviet Union has the potential to rapidly expand soybean meal use. Recent large soybean purchases are a strong indication that Soviet feeding patterns are shifting toward using more meal. Much uncertainty surrounds the Soviet forecast.
- The developing countries in Asia, especially Taiwan and Korea, are a rapidly growing market for soybeans and soybean meal as these countries continue to expand their livestock sector.
- North Africa and the Middle East will continue as an important market for soybean meal despite a drop in petroleum revenues. The rate of growth may slow compared with our earlier projections.
- In the EC, the largest market for soybeans, consumption and import growth for soybean meal will be slight. This represents a major shift from the consumption pattern of the 1970's when soybean meal use expanded at a rapid pace. The EC will have large domestic supplies of alternative oilseed meals available for the expansion of sunflowerseed and rapeseed. Although the EC is grappling with a surplus vegetable oil situation, especially as Spain and Portugal enter the EC, the government policies are not expected to resist a large gain in oilseed area and output.

STATEMENT OF DENNIS T. AVERY, SENIOR AGRICULTURAL ANALYST, BUREAU OF INTELLIGENCE AND RESEARCH, U.S. DEPARTMENT OF STATE

Since 1980, I have been an agricultural analyst for the Department of State, devoting most of my efforts to following agricultural developments in the 160 or so other countries of the world. I make this statement as an expert on world agricultural productivity, offering no policy recommendations, and representing no State Department policy positions.

American agriculture is in crisis, but few U.S. farmers realize the entire agricultural world is enveloped in the same crisis. Rapid increases in farm output are being triggered primarily by breakthroughs in technology--plant genetics, new farming systems, better pest control and many other knowledge-based improvements. Production is also being stimulated by more supportive farm policies in the developing countries and by farm subsidies in the developed countries.

Commercially, the increase in farm output is confronting sluggish growth in demand. More and more markets for farm products are "mature"--the populations are already well fed and well clothed, and consumption will not increase very much at any price.

The competition among the world's farmers is becoming broader and fiercer than ever before--and increasingly being resolved by governments in favor of their domestic farmers. Increased farm production potential is producing a corollary trend toward national food self-sufficiency.

National economic self-sufficiency is generally a costly and inefficient way to develop the world's resources. The General Agreement on Tariffs and Trade has done the world enormous good by providing pressure on all countries in favor of trade and comparative advantage. The international efficiency thus generated has added whole percentage points to economic growth rates. The world's agricultures have no such institutional pressure for efficiency, since agriculture has always been an exception to the GATT's general trade rules. Without more effective farm trade rules in the future, the world runs the risk of diverting badly-needed capital into more and more high-cost farm production, storage of yet more expensive farm surpluses, and more debilitating farm trade conflicts.

Underestimating Foreign Farm Productivity Gains

Recently, the developed countries have tended to underestimate the agricultural progress of the Third World. In fact, it has been broadly assumed that the world might well be headed for serious food shortage. The limits-to-growth projections of the Club of Rome and others were apparently based on a short-term slackening in Third World farm productivity growth between 1970 and 1974. LDC farm output rose only 8 percent in those 4 years, compared with a growth rate of roughly 2.5 percent during the previous 25 years. Almost before the gloomy projections could be rushed into print, however, LDC farm output began to rise strongly again--by 5 percent in 1975 and 3 percent annually through the late 1970's. In the 1980's, the developing countries have increased their farm output at the phenomenal rate of 4.4 percent annually. Meanwhile, the pace of agricultural increase in the affluent countries slackened to 1.5 percent. Farm programs kept the U.S. rate of increase to 0.3 percent per year.

Broader Technical Progress in Agriculture

The world's earlier farming "revolutions" gave machines, tractors and chemical fertilizer to farmers in the developed countries. These directly affected perhaps half the world's cropland and one-half billion people. We may now be in the midst of another agricultural revolution--in plant genetics. New seed varieties and new applications of existing plant species are rapidly raising potential output on perhaps 90 percent of the world's arable land--directly impacting the food supplies of more than 5 billion people.

The first big step forward in plant genetics was hybrid corn in the 1930's. The United States was lucky, because corn was open-pollinated and easy to hybridize, and we could grow lots of it. The rest of the world didn't get much from plant genetics until the 1960's. But the real Green Revolution began in the 1960's, and it has not stopped yet.

Europe's grain yields averaged about 1.4 metric tons per hectare in the 1930's, and 1.5 metric tons in the 1950's--before jumping to 2.6 metric tons in the 1960's and 4.5 metric tons in the 1980's. High yielding winter barley and soft wheat varieties have been the biggest factors, backed by intensive use of fertilizer and chemicals.

World rice yields averaged 1.2 metric tons per hectare in the 1930's, and had edged up to 1.5 metric tons by the mid-50's. Today, the average is 3.2 metric tons, and still rising. The latest "Third World" rice needs only two-thirds as much fertilizer and one-tenth as much pest protection to get the same high yields as earlier HYVs (high-yielding varieties).

South American farm production rose 31 percent between 1974 and 1984. Wheat and corn yields rose, and HYVs tripled food bean yields. In Guatemala, the latest white corn varieties are yielding as much as 8 tons per hectare, compared with a national average yield of 1.5 tons. (They are also doubling yields in West Africa.) A new sunflower variety is raising Argentine yields by 25 percent. A new forage legume has been found and developed for Latin America's huge acid savannahs.

Even the deserts can benefit from new plant genetics. Research have found that a cross-bred grass (sorghum and sudan) releases so much carbon dioxide and acid from its roots that it literally changes the physical structure of high-sodium desert soils. The grass produces 20 tons of forage per crop even as it renovates the soils, breaking down insoluble calcite into its calcium ions, which releases the sodium to be leached out by rainfall or irrigation and opens up the soil structure to admit water.

Hybridization

Hybridization has become a story in itself. For 30 years, we had hybridized only corn and sorghum of the world's important crop lands. Two years ago, U.S. seed companies released the first practical wheat hybrids, with yield increases of 20 to 25 percent. This year, French seed catalogs offer a hybrid wheat and the rest of the world's wheat breeders are surely hot on the same trail. The long-term yield potential of hybrid wheat is as great as that of hybrid corn. World wheat yields can thus be expected to increase at least 25 percent within the decade, and double within two decades.

Hybrid cotton is now a reality. The Chinese have developed hybrid rice. The Canadians have hybridized rapeseed. The highest-yielding small grain at the international center in Mexico recently has been triticale, a hybrid of wheat and rye. Researchers think they are close to a hybrid alfalfa.

Short-season corn hybrids varieties have moved the U.S. Corn Belt 250 miles north in the last decade--into central Canada. East Germany has never before grown corn, but this year has planted 25,000 acres of field tests; they believe they can grow enough corn-cob silage to displace most of the 2 million metric tons of corn they still import. The Soviet Union is looking at the same hybrid to increase feed production north of Kiev. Argentina wants short-season dent-flint hybrids for its southern croplands.

The "ripple effect" of new technology is further demonstrated by palm oil. The World Bank financed big plantations of high-yielding oil palm in West Africa in the 1960's. In the 1970's, Malaysia and Indonesia imported the oil palms, and used sophisticated tissue culture experiments to raise the oil content. These latest varieties are now being smuggled into Thailand and bought for Colombia (we can expect big increases in palm oil production from Latin America as they spread).

Evolution in Farm Technology Continues

Other types of agricultural progress continue. A new farming system lets India crop millions of acres of black, sticky Vertisol soils. Turkey is building three big dams on the upper Euphrates River that will irrigate as much cropland as we plant in Nebraska. Brazil is opening up 125 million new crop acres in its Cerrado plateau, using lime and phosphate to combat the acidity of the soil and get good crops of wheat, corn and soybeans. Spain and Portugal are adapting the Australian "ley system" for 35 million semi-arid acres; they think it will boost grain yields and add huge amounts of forage production while cutting both operating costs and soil erosion. The U.S. Department of Agriculture has developed the world's first viral insecticide, which attacks only the Heliothis family of insects (tomato fruitworm, corn earworm, tobacco budworm) with virtually no environmental side effects. Isoacids, a whole new class of dairy feed additives, but feed costs or raise milk output 10 percent per cow.

Help for Africa

Africa is not being left out of this progress. Alley cropping--interspersing crops with rows of leguminous trees--has now been proven as the first really stable, permanent land use system ever available to much of Africa's agriculture. This is enormously important, because Africa probably plants no more than 20 percent of its arable land in any given year. Fertilizer has been too expensive and seeds too weak; leaving land in bush fallow for 6 to 20 years has been the only cost-effective way to maintain fertility. With alley cropping, many African regions can not only feed five times as many families, but provide their fuelwood and timber.

Africa may well be on the verge of a whole family of sorghums with Green Revolution potential. The Sudan has enough seed this year to plant 2.5 million acres of a new drought-resistant sorghum HYV. In good years, the new seeds double and triple the yields of local strains; in a year so dry that local seeds failed completely, the now sorghum yielded more than the old ones in a good year. The HYV and several of its relatives have done well as far south as Zimbabwe. Another new sorghum for the harsher conditions of the Sahel promises to double cereal yields in one of the least-favored agricultural areas of the world. Researchers in the highlands of Ethiopia have gotten test yields of potatoes as high as 50 tons per hectare. A new cassava HYV is resistant to several endemic pests, and outyields previous cultivars by three to five fold. Researchers are testing HYV peanuts with double and triple yield potential, and a new mulch-farming system for plantains.

A fascinating experiment in Rawanda may lead to progress against the tse-tse fly that prevents farming in huge tracts of Africa. Tse-tse flies in search of shade are lured into traps, and sterilized with a chemical which they pass on in their repeated matings--achieving a near-geometric progression of eradication.

These are just a few among hundreds of examples that demonstrate the breadth and diversity of the world's current agricultural progress. The ultimate limits are imposed only by the limits of human knowledge.

Better Policies Support Farmers

The rest of the world is increasingly copying the successful U.S. policy model for agriculture: relatively small, intensively managed farms with price incentives, good agricultural research, and efficiently-supplied inputs. Pakistan didn't get much result from the Green Revolution varieties--until they offered farm price incentives. China scrapped its big communal farms in 1979, leased the land back to small farmers and raised prices by 25 percent; farm output rose an astounding 50 percent in 6 years. From Algeria to Fiji, from East Germany to Zimbabwe, governments are increasingly applying this farm policy success model.

Genetic Engineering in the Future

Less exotic agricultural improvements have been powerful enough to bring on the current farm surpluses, but genetic engineering advances will unquestionably increase farm productivity in the years ahead. The world's first fully-safe vaccine against foot-and-mouth disease is already being produced with genetically-engineered bacteria. A bovine growth hormone treatment could sharply raise milk output per cow in the very near future, in countries where it receives government approval. In the longer term, other important potentials will be tapped. Researchers may be able to breed salt-tolerant rice for coastal marshes. Some soil bacteria already produce ammonia, and these might be modified to produce nitrogen for crops right in the plant root zones. We could change livestock cell structures to provide tender meat with less fat. These feats or others equally dramatic will lower real farm production costs and impact farm structure. Some genetic engineering advances may be banned in countries worried about surpluses, but most countries will use them to meet farm product needs at lower cost.

Defeating Hunger

It seems clear now that the developing countries will be able to meet most of the their increasing food needs from their own production. This is enormously good news for the world, even if it is bearish news for American farmers. The World Bank recently estimated that only 6 percent of the world's population is at physical risk due to inadequate food supplies, probably an all-time low. The Bank's numbers may be too pessimistic. Studies have shown that the crop estimates in the LDCs are very poor; a great deal of LDC food production is not seen or counted and LDC food production is thus under-counted by at least 15 percent. In addition, nutritionists have consistently overestimated the caloric needs of the "small-but-healthy" populations in developing countries. The real proportion of the hungry in the world could be as low as 3 percent. Whatever the number, virtually all experts agree it is shrinking. If current farm productivity trends continue and begin to include Africa, absolute numbers will begin to shrink as well.

Better Technology Cuts Farm Costs

Modern farm technology generates its awesome economic power primarily by reducing per unit production costs. A potent new seed that doubles yields cuts land costs and land preparation costs per unit of output in half, and nearly halves per unit labor costs. By making better use of fertilizer, the seeds can sharply cut fertilizer costs per unit of output. (That's an important reason why LDCs doubled fertilizer use in the 1970's, even though fertilizer prices rose sharply.) Too few developing countries' governments have realized that highly productive farming cuts food cost more radically and effectively than price controls. In the developed countries, rapid technical change has overwhelmed government policies in many countries; technology permits lower real costs of production, turning price "protection" into production incentives.

Self-Sufficiency Trend

World production of food grains rose 8.5 percent, and world food grain imports dropped 7 percent in just the 3 years from 1982/83 through 1985/86. Sales by the traditional non-U.S. exporters remained basically flat, and those of the United States actually declined. The production increases came that category. Eastern Europe is a nearly-mature market and a net agricultural exporter; any further market growth will be provided by the region's own farmers. Japan and South Korea importantly in such places as China, India, Indonesia, and Western Europe that used to be major importers. Thirty million tons of the increase also came from such countries as Finland, Nigeria, and Bangladesh.

Most of the developed countries are already mature markets: North America and Western Europe certainly fit in are relatively mature and growing only slowly. The Soviet Union has provided most of the increase in world farm imports in the last decade, and the USSR is now a nearly-mature market. The Soviets have to fill one last gap--roughly 2 million metric tons of protein meal per year for its livestock rations.

The big populations of the developing world are growing rapidly, and eagerly seeking to improve their diets. But effective demand in countries like India and China may not grow any more rapidly than their domestic agricultural output. China can still add a great deal of productivity with technology already on the world's research shelves. India has the lowest grain yields in the world. Indonesia now has a rice surplus, and is seeking to shift farmland from rice to corn and soybeans. Bangladesh last year had good early grain crops, so farmers planted more of an HYV mustardseed; vegetable oil imports dropped 10 percent as a result.

Farm Subsidies Displace Imports

Virtually all of the affluent countries offer their farmers significant subsidies tied to prices or trade protection. These have stimulated sharp increase in output. The European Community is perhaps the most dramatic example as it shifted from a net grain importer of 20 million metric tons per year to a net grain exporter of 30 million metric tons per year in the last decade. Now, with the world markets saturated, the EC is working to displace as much as possible of its remaining farm imports. France has raised its self-sufficiency in oilseed and pulse crops from roughly 15 to 30 percent in the last decade. Rape production is up, and low-acid varieties are available. By de-hulling the rape, the meal would be low enough in fiber to substitute in hog and poultry rations. (The hulls would then be used in cattle feed.) The latest French sunflowerseeds yield more, and some can be grown as far north as the Paris Basin. Yields of pulse crops like field beans and horsebeans have jumped more than 50 percent, and acreage is up sharply. The EC's starch milling industry is reorganizing to use wheat instead of cornstarch. EC entry of Spain and Portugal probably means greater EC self-sufficiency in cotton, rice, fruits, and vegetables. All of this is costly, but technically very feasible.

Farm Surplus Dilemma for the Affluent Countries

If the farmers of the developed countries are not going to be called upon to feed the hungry of the Third World; if the farm surpluses of the affluent countries really are surplus; if new farm technology will continue to increase farm output capacity at a rapid rate; then the farm subsidy and trade policies of the affluent countries may be unable to survive in the present forms.

The world reached an agricultural crisis point last year, then the Congress of the United States passed the 1985 farm law. As a result, world prices for farm products in 1986/87 will be at least 35 percent lower in real terms than year-earlier prices due to the U.S. policy change and the weakening of the dollar. Given the continuing flow of new technology and the mobilization of more agricultural resources around the world, farm prices are unlikely to rise very much in the foreseeable future.

However, the farm trade crisis probably need not produce major structural damages for the agricultures of the developed countries. The farm subsidies of the developed countries do not seem to have produced much prosperity for their farmers in recent years, and there are substantial scientific and economic factors undergirding this conclusion:

-- Price supports and import protections encourage higher land values that quickly become farm costs instead of windfall profits.

-- The high prices and high land values both encourage heavier use of chemical and other purchased inputs, raising costs of production while other farmers' costs are declining.

-- There is virtually no limit to the amount of farm products sophisticated farmers can produce if price incentives are guaranteed.

-- The farm trade barriers necessary to protect farm subsidies are drawing more trade retaliation.

- Farmer numbers have declined rapidly despite the subsidies. With prices guaranteed, aggressive commercial farmers can pencil in their costs against the support price, take the figures to the bank, and get loans to buy out their less aggressive neighbors. The U.S., France and the USSR currently have almost the same rate of exodus from farming (2.7 percent annually). The decline in farmer numbers has been slower in Spain than in France, though France has had high EC farm subsidies. Japan has the most rapid decline in farmer numbers today (3.6 percent) despite having the most protected market.
- The increasing output of the world's farms and sluggish demand growth have rapidly escalated farm subsidy costs. The subsidies are now costing consumers and taxpayers in the affluent countries well over $100 billion annually. Farm subsidy costs in the European Community alone has recently totaled $50 to $60 billion per year; the EC will probably have to pay at least $3 billion more during the coming year due to the decline in the dollar and lower U.S. export prices, and the gap between world and EC food prices will widen dramatically. Proportionately, the other West European countries are spending nearly as much on their farm subsidies as the EC.

If all of the OECD nations agreed to phase out their farm subsidies simultaneously, the likely result would be more and smaller family farms, focusing more directly on lower production costs and less on maximum yields. If product prices and land values were lower, farmers would apply significantly less fertilizer. They would tolerate more weeds and insects before hauling out the spray rig. They would depend more on intensive management practices such as crop rotation. Crops would be more closely related to soil types. There would be fewer big farms leveraged with bank loans, and more family-sized farms able to bear the risk of commodity prices changes.

Production would fall by an unknown percentage, but per-unit production costs would probably fall accordingly. Reforming the GATT agricultural regime to follow the nonfarm trade rules and eliminate widespread use of export subsidies and trade barriers could help importantly by encouraging farm production in the most efficient areas.

It seems likely that the national governments could design and implement programs that would ease the problems of adjustment and prevent mass bankruptcies and urban migrations. In fact, these adjustments could probably be achieved at far less cost than the current open-ended price guarantees are imposing.

U.S. Competitive Position

Whatever farm and farm trade policies the U.S. chooses to follow in the years ahead, there is virtually no question that American farmers will have to contend with rapid technological change and rising potential production from farmers in other countries.

Costwise, U.S. farmland values are relatively high, but U.S. marketing costs are relatively low. The enormous and sophisticated infrastructure that supports U.S. farmers--the roads, elevators, barges, telephones, parts depots and other capital investments that support American farmers' productivity is unrivaled in the world. Farm output capacity is rapidly getting cheaper, but infrastructures are still very expensive.

STATEMENT OF WILLARD R. SPARKS, PRESIDENT, SPARKS COMMODITIES, INC.

My remarks today will focus primarily on the fundamental outlook for U.S. grain through the turn of the century. It would be extremely presumptuous to suggest that I, or anyone for that matter, can clearly see that far into the future with great precision and you should be very skeptical of anyone who claims that they can. While lacking in precision however, one can, I believe, draw some very well founded conclusions about the basic nature of this outlook for U.S. grain fundamentals and that is what I would propose to do. It is our conclusion that given the competitive agricultural prices which will exist under the Food Security Act of 1985, U.S. grain exports will increase from the current level of 69 million tons for 1985-86 to 114 million tons by 1990 and 216 million tons by the year 2000. These conclusions are based on a continued growth in non-U.S. consumption of 2.4 percent to 2.3 percent per year along with yield increases that occurred during the 1970-1980 period and only modest increases in non-U.S. acreage. The continued slowing of non-U.S. acreage increases that has actually occurred since the early 1970's, and the continued growth in demand that we feel is probable with competitive prices, provide an excellent opportunity for growth in U.S. export demand.

I should not need to tell this group that the United States is today blessed with the resource base to out-produce its domestic food needs. This has been the case throughout our history and is certainly a major force behind the wealth and prosperity which we enjoy as a country. As a result of this excess capacity, however, the economic well being of U.S. agriculture is very closely tied to the relationship between the U.S. and other countries in the world, both those who are also surplus producers but especially those who are deficit producers and who are our potential customers.

These relationships with deficit countries are especially fragile because, as potential customers, we ask them to become dependent upon us for the most basic of all human needs, food. Anything which affects this relationship is, therefore, extremely critical to their perspective of the U.S. trustworthiness as a dependable supplier upon whom they can rely for a continuing source of this basic need. If there is a single source of the depressed plight of U.S. agriculture today it might well be the many violations of this trust which have occurred during recent history. Since the early 70's, we as a country have many times told the world that our grain supplies are not necessarily available to everyone who is willing to pay for them and, that in times of shortage, our supplies will not necessarily be shared.

In looking forward, therefore, it is paramount that these relationships be given much greater importance. If U.S. agriculture is to ever become economically healthy in the future, it must be given the opportunity to be a reliable supplier to world consumers through exporting its excess capacity. Some factors in these relationships are directly the result of U.S. agricultural policy. Many others, however, are nonagricultural policy issues, but never the less are critical to the well being of agriculture.

The relationship between the United States and other surplus producing countries around the world is very closely tied to traditional agricultural commodity policy. As the largest exporter of grains and oilseeds in the world, U.S. commodity price support policy establishes a base upon which other surplus countries can stand. When, as in the past 4-5 years under the 1981 farm act which prescribed escalating price supports, U.S. commodity policy holds market prices above equilibrium levels and reduces supplies in an attempt to retard growing surpluses, these other surplus countries are directly aided without incurring any direct cost. The evolution of the Food Security Act of 1985 was long arduous. It very clearly, however, sends a statement to other surplus producing countries that the United States is not going to subsidize their agricultural economies by supporting prices above equilibrium levels in the future. And, that if they want to maintain revenues for their producers, they must begin to pay their full share of the cost.

This, as you well know, is a major change in commodity policy direction. Other surplus countries did not believe this change could occur and only time and U.S. determination to follow the course set will convince them that it is, in fact, a change that they must accept for the future.

As we are currently in the midst of this transition phase of U.S. agricultural policy, I would suggest that we still need to look at two outlook scenarios. The first is that course that we are seeking to change. One of "uncompetitiveness"; such as the proposed in Senator Harkin's bill considered by this body several months ago which would have dictated $3.60 corn, $5.00 wheat, and 88 cents cotton and $9.00 soybeans, in which the support of commodity prices far above the equilibrium level directly stimulates non-U.S. production (especially within other surplus producing countries), while at the same time discouraging consumption within deficit countries. While the Food Security Act of 1985 promises to change this scenario, only a firm resolve to implement its basic contents can change the momentum of the uncompetitive policy which proceeded it. The second scenario is the course set by the Food Security Act of 1985. This scenario of "competitiveness" also very importantly presumes an earnest, dedicated pursuit of trustworthiness in our relationship to all deficit countries who must look toward the United States as a reliable supplier of foodstuffs.

Our attempt to qualify these two scenarios is shown in some detail within the appendix attached to this testimony as submitted. As a summary, the "uncompetitive" alternative would be expected to totally destroy U.S. grain exports before the end of this century with imports likely to threaten U.S. grain markets on a continuing basis (see page 1a). The "Competitive" alternative on the other hand will reverse the recent decline in grain exports and holds out prospects for a return to 1980 level exports by the early 1990's approximately 114 million tons or about 4.3 billion bushels (see page 1a). This demand for U.S. grain exports is based on an increase in consumption outside the United States of approximately 2.4 percent per year, or approximately the same we have seen from 1980 to 1984. Production of grain outside the United States is expected to increase at only 2.2 percent per year compared with 3.1 percent in early 1980's (see page 2a). This slow-down in world production primarily the result of continuing the minor uptrend in acreage that has been seen over the past 10 years and a moderation in the yield increases of the 1980's.

With a continuation of this same competitive policy we would expect demand for U.S. exports to increase to approximately 217 million tons (8.2 billion bushels), or the production from approximately 100 million acres by the year 2000. These estimates are based on an increase in consumption of 2.3 percent which is only slightly more than the population increase. However, the most important assumption relates to area cultivated which is assumed to be flat with yields increasing only 1.8 percent compared to over 3 percent in the early 1980's. This slowing of acreage expansion and yield increases outside the United States, we believe, is the result of price levels as dictated by U.S. agricultural policy.

This outlook undoubtedly sounds very far fetched compared with the reports you are likely receiving about export demand which currently exists. Along these lines, three general observations are offered. First of all, we are in the midst of the transition toward the "competitive" policy. During this transition period non-U.S. suppliers have a strong incentive to sell any existing supplies so as not to carry any excess inventory into the new era of lower prices. Users, on the other hand, have an equally strong incentive to not carry any unnecessary supplies into the new era when presumably they will be able to acquire them at lower prices. All of which is to say that demand logically should be at its worst during this transition period.

The second observation is that non-U.S. yields have been very good during the last few years. These well above trend yields are not likely to be sustained without interruption during the next few years and even a modest interruption would benefit trade prospects.

The third observation that I would offer is the stability in area devoted to grain production outside the U.S. in recent years. Examination of non-US. harvested area data shown in the appendix shows that following the expansion stimulated in the early 1970's by grain shortages and high prices, area devoted to grains has been relatively stable. This lack of expansion limits production growth to that associated with increasing yields and enhances the likelihood that import demand will grow over time.

As I indicated initially, the precision contained in specific estimates to the year 2000 is not great. I would strongly suggest, however, that the relative relationship between those scenarios depicted is both analytically sound and logically reasonable. The move toward competitiveness will not immediately bring prosperity to U.S. agriculture nor will it immediately solve the current excess production capacity problem. For my experience as an agricultural economist and as a grain merchant, the current transition period should be the most discouraging Persistence along the competitive policy path will, however, be rewarding for the U.S. economy in general and for U.S. agricultural in particular. This competitive policy must include both a U.S. commodity policy which allows markets the freedom to seek equilibrium price levels and at the same time an unwavering pursuit of the reliable supplier position toward all potential customers. Neither will be successful by itself.

Both the current 1985-86 and the upcoming 1986-87 U.S. crop years must be considered a part of the transition period to the full competitive policy era. During the current year, U.S. prices are still being directed by old commodity policies, specifically loan levels that continue to generate market scarcity in the presence of overabundance. The upcoming 1986-87 season will also contain some transition elements as much of the non-U.S. world production potential was fixed prior to the passage of the Food Security Act of 1985 and the remainder certainly well before its market impact could be seen by those individuals making production decisions. Because of this slow time consuming evolution to the full impact of our new competitive policy dictated by cropping seasons, even 1986/87 events cannot be looked at as representing the environment in which the future of U.S. agriculture has been cast. U.S. grain production is certain to exceed usage again in 1986/87 with surplus stocks expected to be pushed to even higher levels. Our current corn and wheat supply/demand estimates are depicted on their respective balance tables in the appendix to this statement and show additions to ending inventories during the 86/87 crop year of 1.4 billion bushels for corn and 90 million bushels for wheat.

As a final remark, I would like to comment on a policy subject that is close at hand. That of the polling of wheat producers this month regarding their opinion on mandatory marketing quotas in exchange for market prices not less than 125 percent of their cost of production. This poll is required by the Food Security Act of 1985. Its results are not binding on future policy but it will provide a reading on wheat producers current opinion. The analysis conducted by the USDA-ASCS suggested that even with wheat prices at $4.30 compared with $2.40 under the 1986 program, producer net income would fall by nearly 16 percent under what I would consider are some very optimistic assumptions. The reason for the decline stems from the fact that producers would only be allowed to cultivate 25 to 30 percent of their wheat acreage for the "high price." Which is to say, administered high commodity prices alone are not the answer to the desire for agricultural prosperity. They simply force additional costs into the U.S. consumers food expenditures, severely limit the utilization of agricultural resources, and shrink all of agribusiness to that size required to support a purely domestic agriculture industry.

APPENDIX

	Page Number
Non-U.S. Grain Production and Implied Consumption given U.S. Exports With Alternative U.S. Policies to 1990 and 2000	1a
Historical Annual Percentage Rates of Change and Those Assumed to 1990 and 200 Under Alternative U.S. Policies	2a
All Grains Area Harvested: World Totals Minus USA.	3a
All Grains Yield: World Totals Minus USA	4a
Rice Area Harvested: World Totals Minus USA	5a
Rice Yield: World Totals Minus USA	6a
Feed Grain and Wheat Area Harvested: World Totals Minus USA	7a
Feed Grains and Wheat Yield: World Totals Minus USA	8a
Wheat Area Harvested: World totals Minus USA	9a
Wheat Yield: World Totals Minus USA	10a
Feed Grains Area Harvested: World Totals Minus USA	11a
Feed Grains Yield: World Totals Minus USA	12a
U.S. All Wheat Annual Balance Table	13a
Corn Balance Table, U.S.	14a

NON-U.S. GRAIN PRODUCTION AND IMPLIED CONSUMPTION GIVEN US EXPORTS
with Alternative U.S. Policies to 1990 and 2000

	Historical 1/						Competitive		Uncompetitive	
	1961	1965	1970	1975	1980	1984	1990	2000	1990	2000
Non US Area (mil hectares)										
Feed Grains	248.4	255.2	271.9	284.5	282.8	281.6	282.0	283.0	286.5	292.5
Wheat	184.3	194.9	193.9	198.4	205.9	203.9	208.0	212.0	208.0	215.0
Rice	118.0	124.7	132.3	139.9	142.6	142.9	143.0	143.0	145.5	147.5
Total	550.7	574.8	598.2	622.8	631.3	628.4	633.0	638.0	640.0	655.0
Non US Yield (quintals/Ha)										
Feed Grains	11.2	12.6	14.7	16.0	17.6	18.9	20.9	24.7	21.4	24.6
Wheat	11.1	12.6	14.7	16.3	18.1	21.4	24.8	30.4	26.0	33.9
Rice	12.8	13.9	15.5	16.4	18.3	21.7	24.5	28.7	24.5	29.3
All Grains	11.5	12.9	14.9	16.2	17.9	20.3	23.0	27.5	23.6	28.7
Non US Production (mil MT)										
Feed Grains	279.2	323.5	399.7	453.7	496.3	531.9	590.0	700.0	613.0	719.0
Wheat	204.9	245.0	284.8	324.4	372.3	435.6	516.0	644.0	541.0	729.0
Rice	151.1	173.4	205.4	229.4	260.5	309.9	350.0	410.0	356.0	432.0
All Grains	635.2	741.9	889.9	1007.5	1129.1	1277.5	1456.0	1755.0	1510.0	1880.0
US Exports (mil MT)										
Feed Grains	13.3	21.5	20.3	45.1	66.2	51.1				
Wheat	18.1	21.1	17.4	28.4	42.2	33.8				
Rice	1.0	1.5	1.7	2.0	2.8	2.0	2.7	3.6	0.5	0.8
All Grains	32.4	44.0	39.4	75.5	111.2	86.9	114.4	216.9	35.1	-7.7
Non US Supplies: IMPLIED CONSUMPTION and STOCK CHANGES (mil MT) 2/										
Feed Grains	292.5	345.0	420.0	498.7	562.4	583.1				
Wheat	223.1	265.9	302.1	352.8	414.6	469.4				
Rice	152.0	174.9	207.1	231.4	263.3	311.9				
All Grains	667.6	785.9	929.2	1083.0	1240.3	1364.4	1573.0	1975.0	1546.0	1873.0
United States										
Grain Yields (quintals/HA)	25.6	29.0	34.3	33.2	41.5	41.6	45.5	52.8	46.8	55.4
Area Used to Produce Export Grain										
(mil Ha)	12.7	15.2	11.5	22.7	26.8	20.9	25.1	41.1	7.5	-1.4
(mil A)	31.3	37.5	28.4	56.2	66.2	51.6	62.1	101.5	18.5	-3.4

MI 322 June 2, 1986

1/ Data for individual years shown is a three year average of the year indicated, the preceeding year and the suceeding year.

2/ Non US Production plus US Exports.

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Historical Annual Percentage Rates of Change and Those Assumed
To 1990 and 2000 under Alternative US Policies 1/

	1961 to 1965	1965 to 1970	1970 to 1975	1975 to 1980	1980 to 1984	Competitive 1984 to 1990	Competitive 1990 to 2000	Uncompetitive 1984 to 1990	Uncompetitive 1990 to 2000
Non US Area									
Feed Grains	0.7	1.3	0.9	-0.1	-0.1	0	0	0.3	0.2
Wheat	1.4	-0.1	0.5	0.7	-0.2	0.3	0.2	0.3	0.3
Rice	1.4	1.2	1.1	0.4	0.0	0	0	0.3	0.1
Total	1.1	0.8	0.8	0.3	-0.1	0.1	0.1	0.3	0.2
Non US Yield									
Feed Grains	3.0	3.0	1.8	1.9	1.8	1.7	1.7	2.1	1.4
Wheat	3.2	3.2	2.1	2.1	4.3	2.5	2.1	3.3	2.7
Rice	2.2	2.2	1.1	2.2	4.4	2.0	1.6	2.0	1.8
All Grains	2.8	2.9	1.7	2.0	3.3	2.1	1.8	2.5	2.0
Non US Production									
Feed Grains	3.8	4.3	2.6	1.8	1.8	1.7	1.7	2.4	1.6
Wheat	4.5	3.0	2.6	2.8	4.0	2.9	2.3	3.6	3.0
Rice	3.5	3.5	2.2	2.6	4.4	2.0	1.6	2.3	1.9
All Grains	4.0	3.7	2.5	2.3	3.1	2.2	1.9	2.8	2.2
Non US Supplies: IMPLIED CONSUMPTION 2/									
Feed Grains	4.2	4.0	3.5	2.4	0.9				
Wheat	4.5	2.6	3.1	3.3	3.1				
Rice	3.5	3.4	2.3	2.6	4.3				
All Grains	4.2	3.4	3.1	2.7	2.4	2.4	2.3	2.1	2.0
US Grains Yields	3.2	3.4	-0.6	4.6	0	1.4	1.4	2.0	1.7

MI 323 June 2, 1986

1/ Data for individual years shown is a three year average of the year indicated, the preceeding year and the suceeding year.

2/ Non US Production plus US Exports

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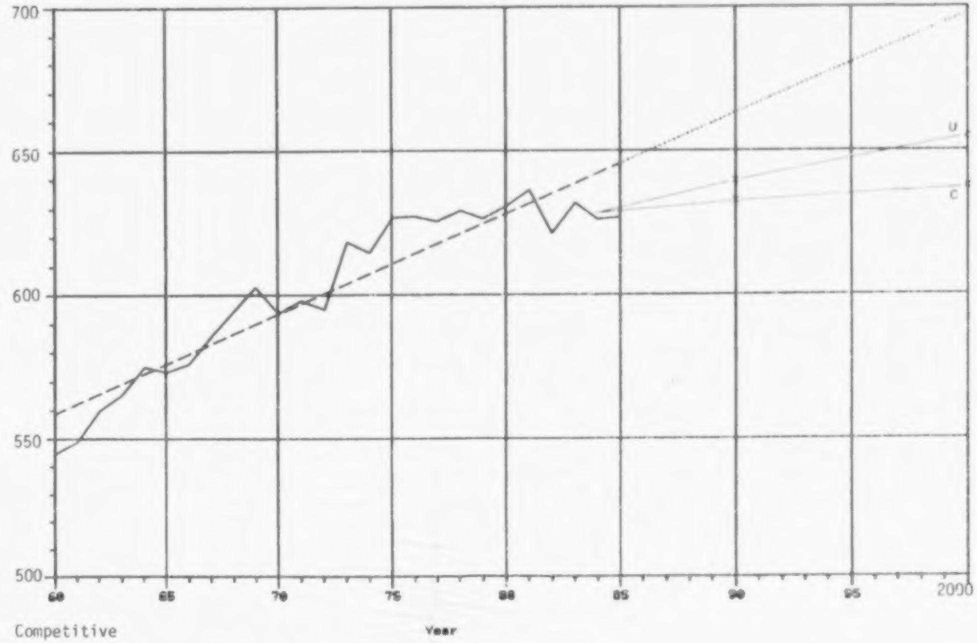
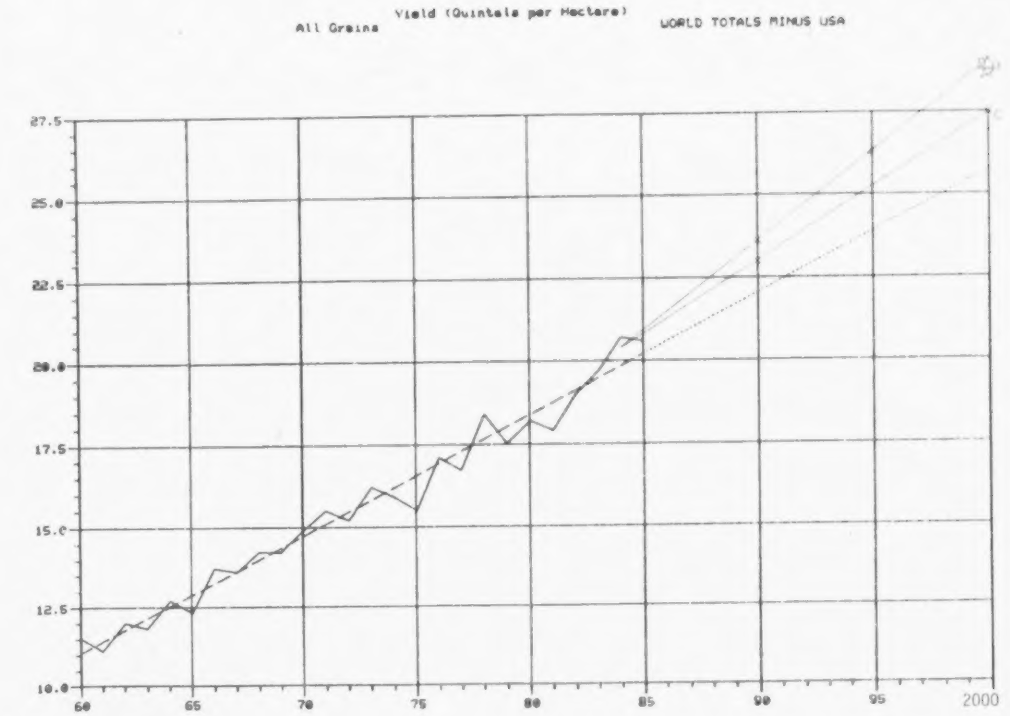
ALL GRAINS Area Harvested (Mil. Hectares) WORLD TOTALS MINUS USA



C: Competitive
U: Uncompetitive

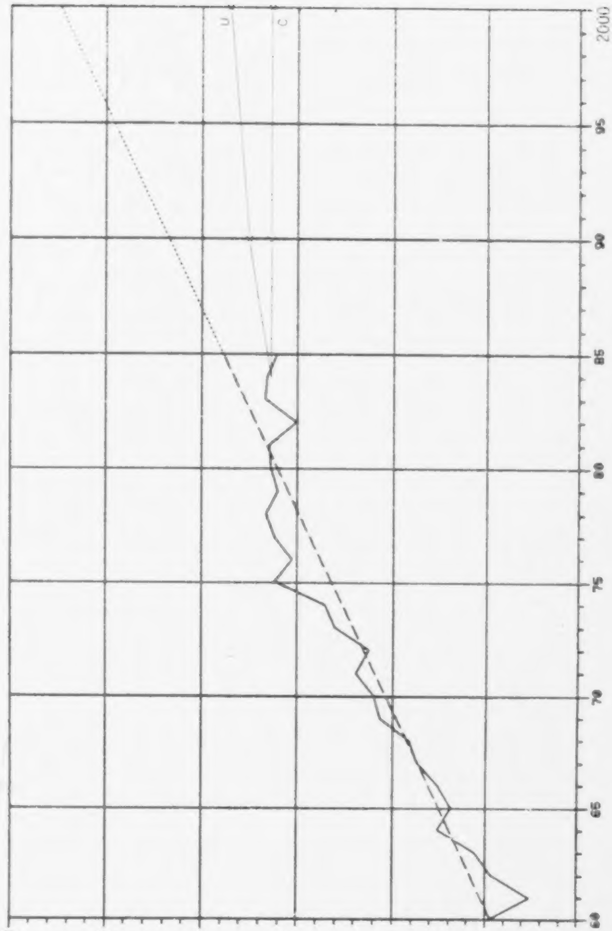
Page 3a



C: Competitive
U: Uncompetitive

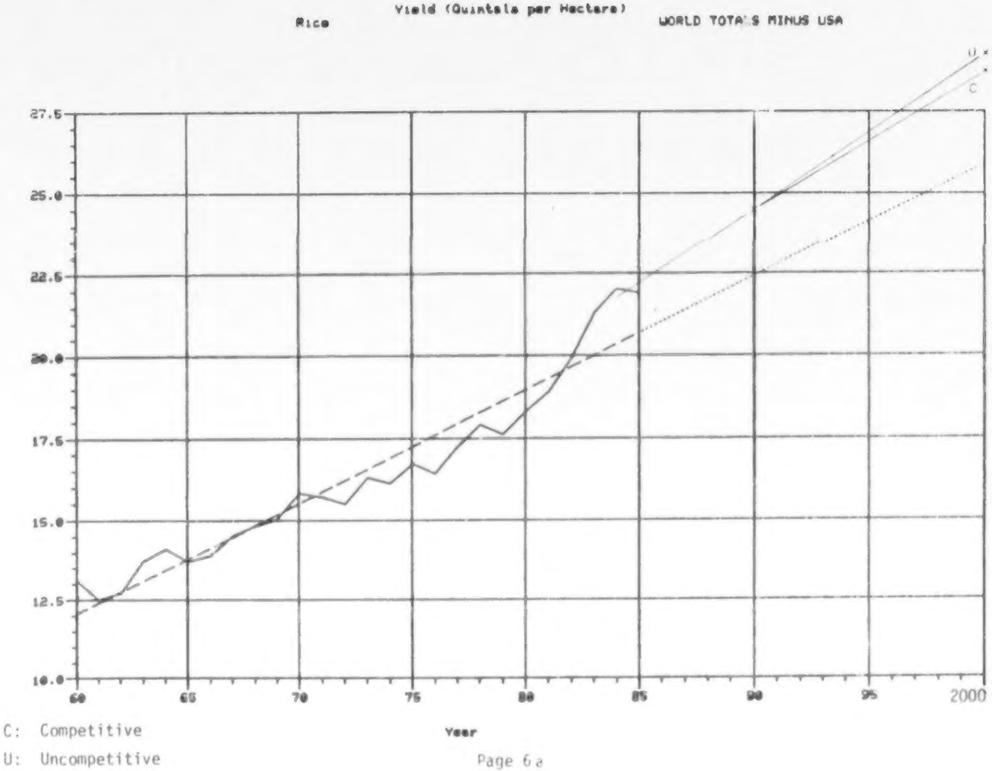
Page 4a

Rice Area Harvested (Mil. Hectares) WORLD TOTALS MINUS USA



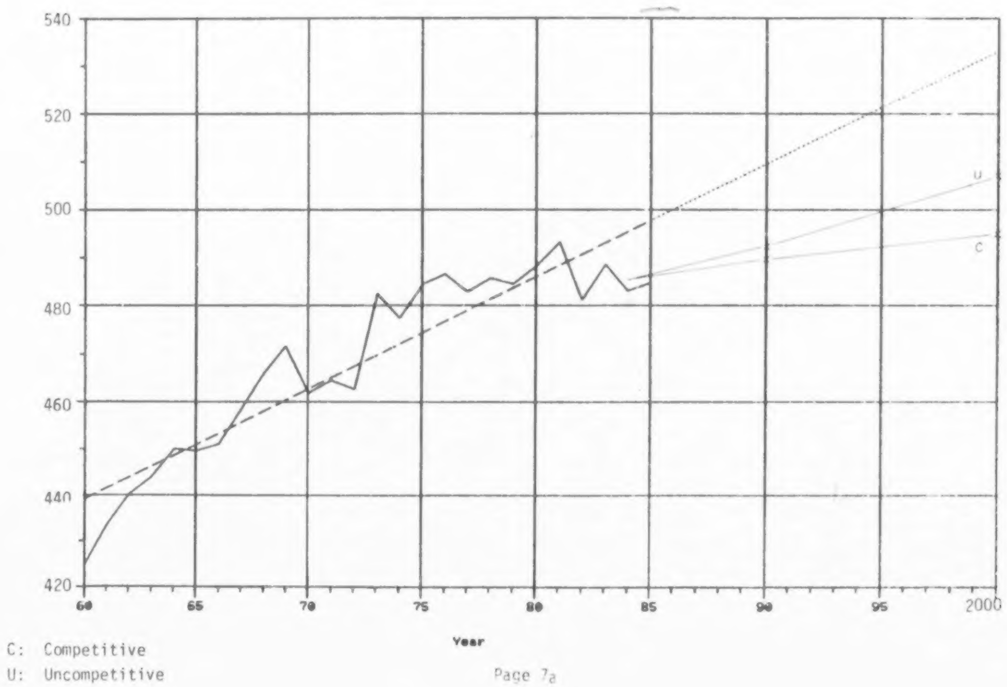
C: Competitive
U: Uncompetitive

Page 5a


Rice
Yield (Quintals per Hectare)
WORLD TOTA'S MINUS USA
U
C
27.5
25.0
22.5
20.0
17.5
15.0
12.5
10.0
60
65
70
75
80
85
90
95
2000
Year
C: Competitive
U: Uncompetitive

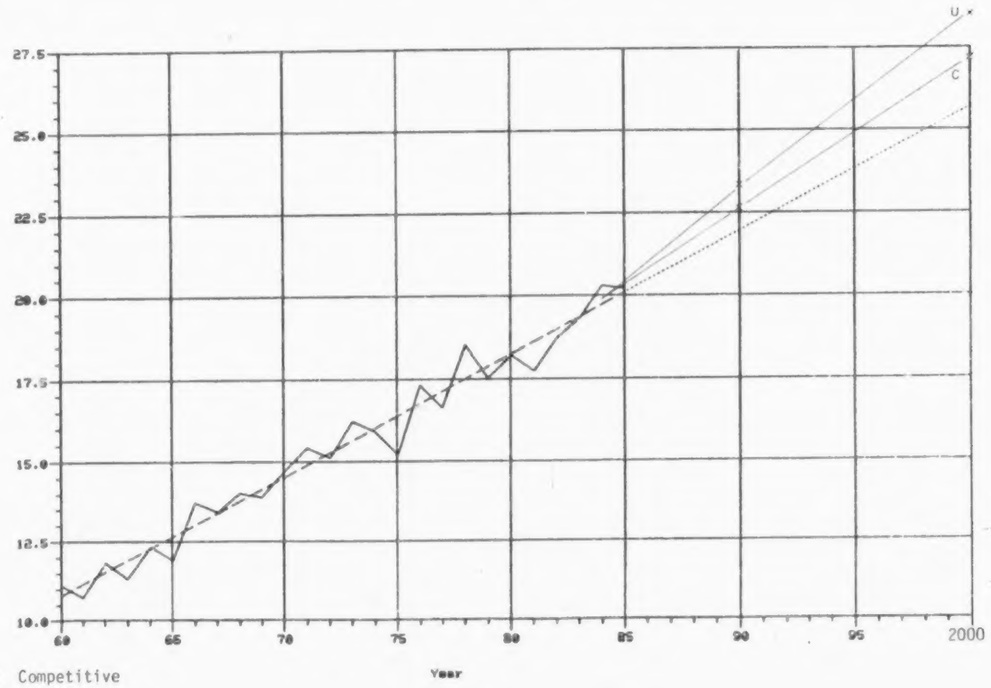
Page 6a

Area Harvested (Mil. Hectares)
Fd Grn & Wheat WORLD TOTALS MINUS USA



Page 7a

Yield (Quintals per Hectare)
Fd Grn & Wheat WORLD TOTALS MINUS USA



C: Competitive
U: Uncompetitive

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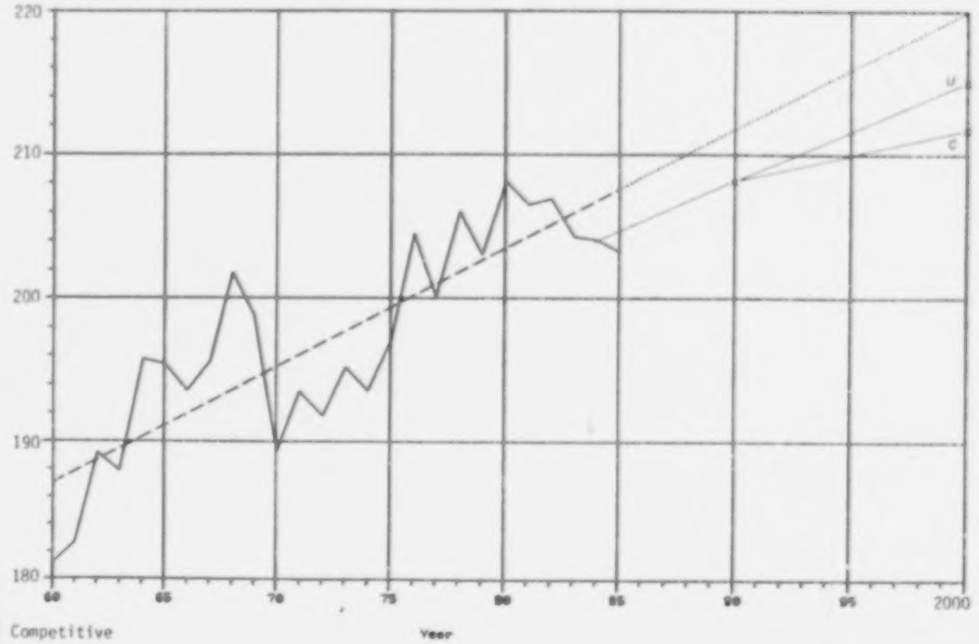
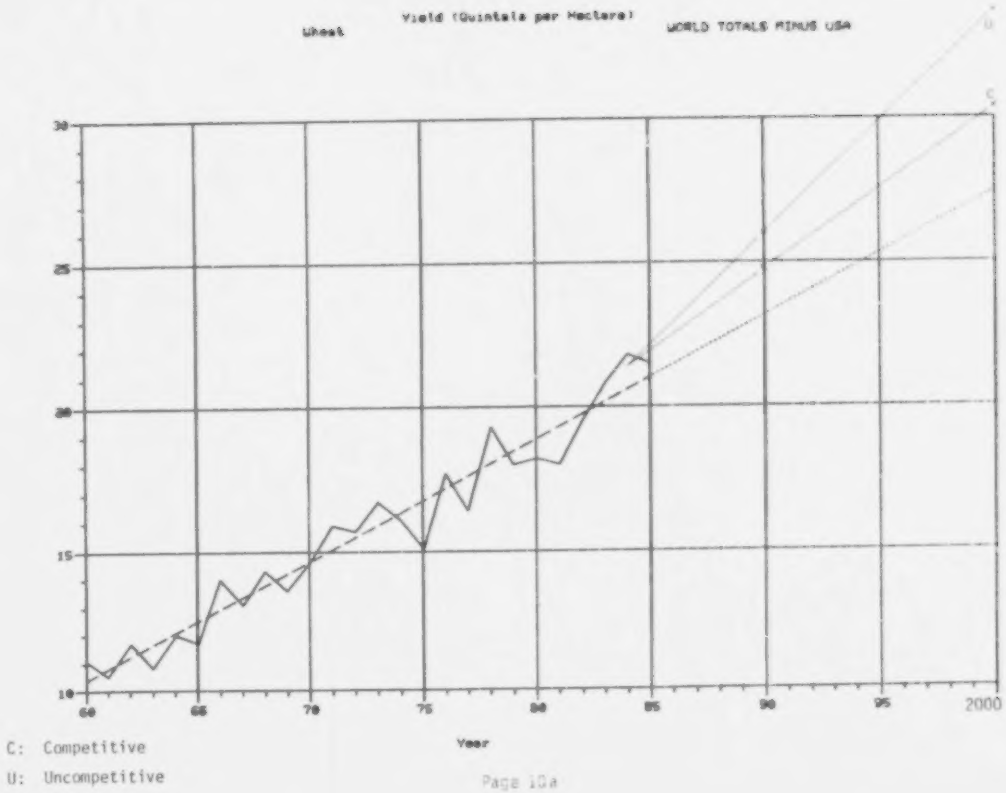
Wheat Area Harvested (Mil. Hectares) WORLD TOTALS MINUS USA



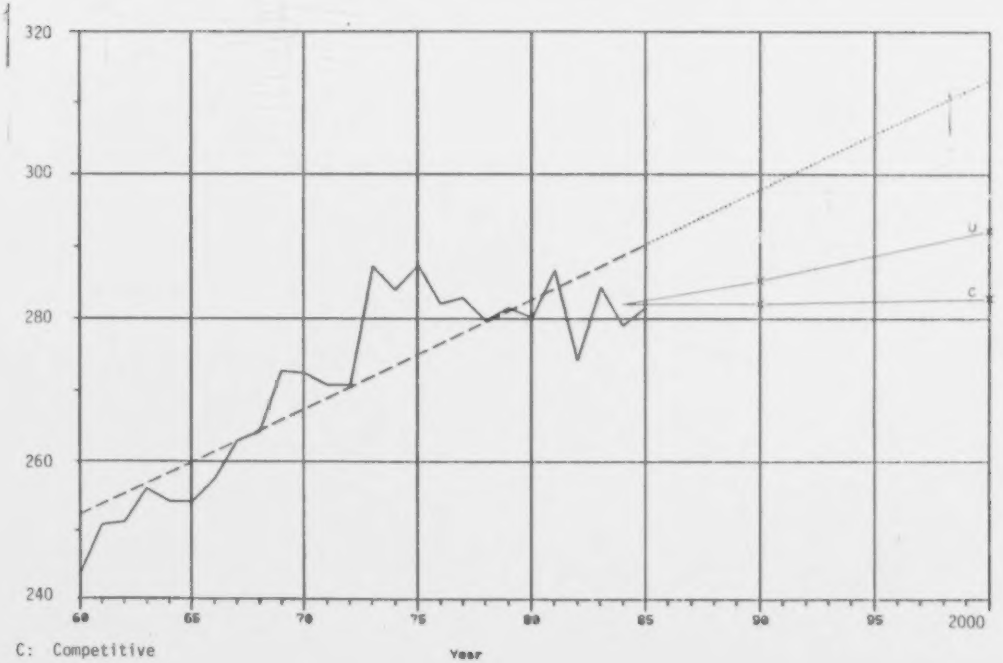
C: Competitive

U: Uncompetitive


Wheat
Yield (Quintals per Hectare)
WORLD TOTALS MINUS USA
30
25
20
15
10
60
65
70
75
80
85
90
95
2000
Year
U
C
C: Competitive
U: Uncompetitive

Page 10a

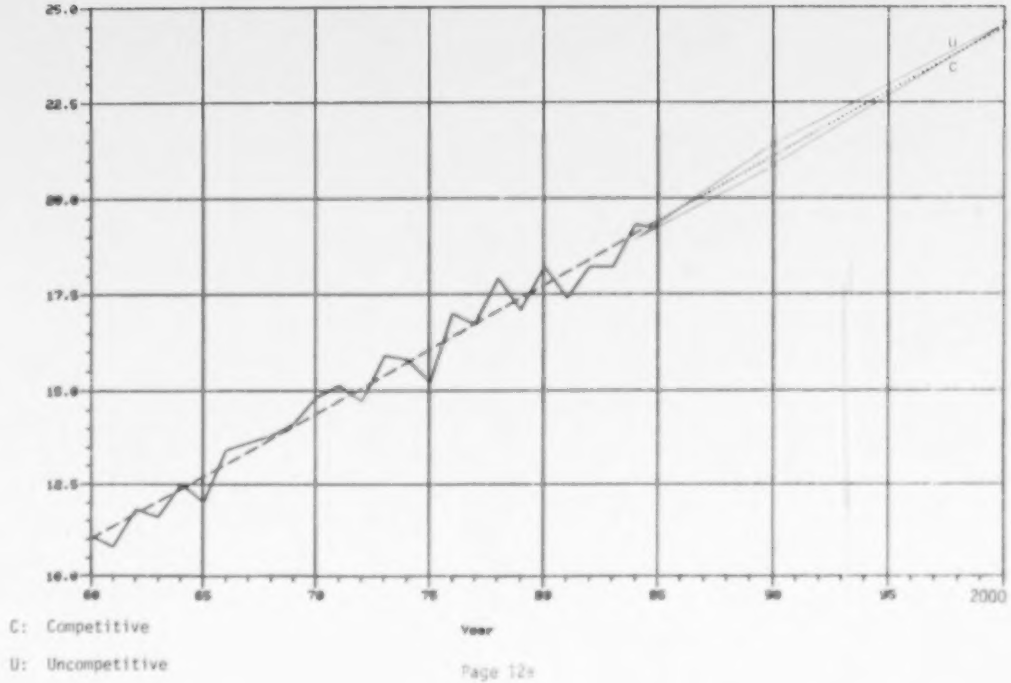
Area Harvested (Mil. Hectares)
Feed Grains
WORLD TOTALS MINUS USA



C: Competitive

U: Uncompetitive

Feed Grains Yield (Quintals per Hectare) WORLD TOTALS MINUS USA



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U.S. ALL WHEAT ANNUAL BALANCE TABLE (Mil Bu)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985*	1986*
Carryin, June 1	599	339	435	666	1113	1178	924	902	989	1159	1515	1399	1425	1867
Imports	3	3	2	3	2	2	2	2	2	7	3	9	9	9
Production	1711	1782	2127	2149	2045	1776	2134	2381	2785	2765	2420	2595	2425	2211
TOTAL SUPPLY	2313	2124	2564	2818	3160	2956	3060	3285	3776	3931	3938	4003	3859	4087
Seed	84	92	99	92	80	87	101	112	111	97	102	95	90	90
Flour	529	532	575	574	572	577	581	599	584	598	618	632	649	650
Feed & Residual	144	47	51	90	206	174	101	71	149	210	391	427	333	335
Total Domestic Usage	757	671	725	756	858	838	783	782	844	905	1111	1154	1072	1075
Grain Exports	1173	979	1137	884	1067	1133	1312	1449	1711	1441	1342	1367	855	1000
Flour	36	30	27	54	44	45	49	48	47	57	76	43	55	45
Other Products	8	9	9	11	13	16	14	17	15	13	10	14	10	10
Total Exports	1217	1018	1173	949	1124	1194	1375	1514	1773	1511	1428	1424	920	1055
TOTAL DISAPPEARANCE	1974	1689	1898	1705	1982	2032	2158	2296	2617	2416	2539	2578	1992	2130
Carryout, May 31	339	435	666	1113	1178	924	902	989	1159	1515	1399	1425	1867	1957
Net Under Loan	-	-	-	415	267	122	99	55	112	64	379	176	763 3/	
Reseal	-	-	-	-	-	-	-	-	-	-	-	-		
Reserve	-	-	-	-	316	403	237	359	560	1061	610	657	623 4/	
CCC	1	-	-	-	48	49	204	198	187	192	188	378	492 5/	
Total Government	1	-	-	415	631	574	540	612	859	1317	1177	1211	1878	
Free Carryout Stocks 1/	338	435	666	1113	814	472	461	432	412	262	278 2/	224 2/	33 2/ NOTE	

* SCI Projections

WH002 May 22, 1986

1/ Wheat outstanding under loan is available to the market and therefore considered part of free carryout stocks unless otherwise specified due to prices below loan redemptions (note 2).

2/ Some loan wheat assumed isolated from market availability with prices below loan redemption for one or more classes and is therefore the sum of individual class free supplies.

3/ Net '85 crop under loan April 1, 1986.

4/ April 1 Total Reserve (614 mb) plus 1984 outstanding loan (9 mb).

5/ April 1 total CCC (501 mb) less assumed 9 mil bu to be distributed as Export Bonus.

NOTE: Some 240 mil bu of scrip will be redeemable beginning May 1.

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CORN BALANCE TABLE, U.S., (MILLION BUSHELS)

	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87*
Oct 1 Stocks	484	361	400	886	1111	1304	1617	1034	2174	3120	723	1381	3646
Production	4701	5841	6289	6505	7268	7928	6639	8119	8235	4175	7674	8865	7935
TOTAL SUPPLY	5185	6202	6689	7391	8379	9232	8256	9153	10409	7295	8397	10246	11581
Feed	3237	3580	3582	3758	4333	4529	4154	4213	4535	3748	4127	4250*	4100
Exports	1136	1699	1671	1931	2122	2411	2332	1954	1856	1851	1825	1275*	1315
Other	451	523	550	591	620	675	736	812	898	973	1064	1075*	1100
TOTAL USAGE	4824	5802	5803	6280	7075	7615	7222	6979	7289	6572	7016	6600*	6515
Carryout, Sep 30	361	400	886	1111	1304	1617	1034	2174	3120	723	1381	3646*	5066
Free Carryout Stock	361	400	886	782	654	1361	796	562	420	98	129 3/	- 54*5/	
Net Under Loan 1/	3	22	117	406	114	80	87	361	124	28	568	2450 4/	
PIK Commitment	-	-	-	-	-	-	-	-	-	-	-	-	
Reserve 1/	-	-	-	316	550	636	185	1310	1550	425	443	680 2/	
CCC	-	-	-	13	100	256	238	302	1150	200	241	570 2/	
TOTAL GOVERNMENT	3	22	117	735	764	972	510	1973	2824	653	1252	3700 2/	
FEEDGRAIN FEEDING													
Corn	3237	3580	3582	3758	4333	4529	4154	4213	4535	3748	4127	4250*	4100
Oats	584	524	513	517	526	462	454	416	457	447	440	465*	445
Barley	177	187	156	196	221	191	168	215	288	283	289	302*	305
Milo	459	501	412	456	567	520	361	408	517	391	551	576*	550
Wheat	35	22	218	155	100	87	125	169	293	508	345	425*	470
TOTAL (Mil. Tons)	118.0	127.8	130.3	135.6	153.9	156.0	141.5	146.3	164.4	145.1	155.3	162.6*	158.8
G.C.A.U. (Mil.)	383.4	412.5	419.7	436.2	462.4	476.3	475.7	462.7	474.1	471.5	474.5	466.2*	462.8
Feeding Rate/A.U.	.308	.310	.310	.311	.333	.328	.297	.316	.347	.308	.227	.349*	.343

* SCI Projections

FG001 Jun 2, 1986

1/ Corn outstanding under loan is available to the market and therefore considered part of free carryout stocks, as is corn which has been released from the reserve.

2/ As of 05-21-86, 2959 million bushels was under loan, 654 million was in reserve and CCC ownership totaled 554* million.

3/ Non-Program

4/ Estimated 1985 crop loan entries remaining under loan as of 9/30/86.

5/ Assumes loan corn isolated from market availability with prices below loan redemption. During the May/Sep period 375 million bushels of program corn will be released to satisfy advance deficiency payments and paid land diversion. In addition a total of 200 million bushels of corn will likely be redeemed from loan even with prices below the loan redemption value indicating a potential free corn carryout of -54 mil bu.

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STATEMENT OF FRED H. SANDERSON[1]
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LONG-TERM PROSPECTS FOR U.S. AGRICULTURAL EXPORTS

Our Current Problem: Loss of Market Share

The sharp fall in U.S. agricultural exports since 1981--about 20 percent in terms of volume and 35 percent in value--has given rise to a flurry of predictions of long-term stagnation (if not decline) of American Agriculture--a dramatic turnaround from the euphoric projections fashionable in the 1970's. One of the current theories has to do with the alleged loss of comparative advantage of American agriculture. This theory has been effectively dissected in Congressional testimony presented last year by John E. Lee, the Administrator of the Economic Research Service. In the year that has passed, two major handicaps to American agricultural exports--the overvalued dollar and noncompetitive market support prices--have been removed. Lower energy prices, lower interest rates, and more realistic land values have begun to improve the cost structure American farms. Projections by our National Center, in cooperation with the Food and Agricultural Policy Research Institute, indicate a substantial recovery (25 percent) in the volume of our agricultural exports in the next three years but only a modest (6 percent) increase in export value.[2]

This does not mean that we are out of the woods. Under the new farm legislation, we are paying farmers huge production subsidies to make our export crops competitive. At the same time, we are resorting even more than in the past to acreage reduction to limit the budget exposure. That costly combination of contradictory policies has gotten us into trouble in past and is probably not sustainable for very long. If budget pressures lead us to rely even more heavily on acreage controls, we shall slide back into the "residual supplier" role which we may have found profitable during rate boom periods but burdensome in most other years. Export subsidies are not going to solve this problem because they are almost certain to be matched, one way or another, by our competitors.

What we need to do is to complete the policy adjustment. We must phase out the system of target prices cum production controls and replace it by more precisely targeted, less expensive, and less market-distorting programs of assistance to those farmers who are in serious financial trouble. I know the chairman of this Subcommittee has been working hard to put American agriculture on a sounder long-term basis. One can only hope that reason will ultimately prevail.

With the right policies, we should be able to regain a larger share in the world market. Comparison with 1980/81 may be misleading, however. It is well to remember that 1980/81 was the final year of the boom when our share in world grain exports hit its all-time peak of 55 percent. It has now dropped to about 40 percent, which is roughly equal to our share in 1971/72 (Table 1.) We should be able to get back to close to 50 percent, thanks to our strong competitive position in feed grains. In wheat, it will be harder, because of strong competition from other suppliers.

Table 1. U.S. Share in World Grain Exports

Crop year	Wheat and feed grains			Wheat			Feed grains		
	U.S.	World	U.S. share	U.S.	World	U.S. share	U.S.	World	U.S. share
	(Mill. m.t.)		(%)	(Mill. m.t.)		(%)	(Mill. m.t.)		(%)
1971/72	40.5	101.3	40	16.3	52.0	31	24.2	49.3	49
1980/81	111.9	202.1	55	41.2	94.1	44	70.7	108.0	65
1985/86	67.6	175.5	38	24.5	87.6	28	43.1	87.9	49
1986/87 (est.)	79.5	181.9	44	29.9	91.7	33	49.5	89.7	55

Source: USDA/FAS, World Grain Situation and Outlook, May 1986.

The World Market Blues

Let me now turn to another theory put forward by the pessimists: that there has been a fundamental, secular change in the world's food supply/demand balance that does not augur well for international trade in agricultural products. According to this line of reasoning, there has been a worldwide acceleration of production growth that is not likely to be matched by increases in the demand for food. Furthermore, production growth is particularly impressive in developing countries that had been counted upon as growing markets for the U.S. and other major agricultural exporters. According to this view, 1980/81 marked not just the end of an eight-year boom but the beginning of a new era.

Most predictions of this sort, based on a few years' experience that may be affected by cyclical factors, have been proven wrong in the past. However, they cannot be dismissed out of hand. For example, 1940 did turn out to be a turning point in agricultural productivity growth in the U.S. The agricultural revolution has since spread to other parts of the world. The *demand* for food has also been slowing, although at a declining rate. The deceleration of demand can be traced to slower population and income growth and the approaching satiation of demand in the most affluent countries. World-wide, we have seen a declining rate of growth of food production as well as consumption for at least two decades preceding 1980.

Yet all that time world agriculture trade has been growing at a more rapid rate than production (Table 2.) The rate of export growth accelerated sharply during the 1970's, in part because of unusually favorable circumstances: a series of crop shortfalls in the USSR; the oil boom (which increased the purchasing power of oil exporters including the USSR); easy credit based on recycled petrodollars; and rapid income and export growth in many middle-income developing countries.

Table 2. FAO Volume Indices of Agricultural Trade and Production

	Average annual growth rates (%)			
	1966-71	1971-76	1976-80	1981-84
Export volume				
World	2.9	4.2	6.1	1.7
Developed market economies	5.1	6.5	9.4	1.2
North America	0.7	8.6	11.4	-1.1
Latin America	1.3	3.3	3.6	3.8
Import volume				
Western Europe	2.6	3.1	2.2	0.7
Centrally planned economies[a]	6.5	8.3	9.0	-0.2
Developing market economies	3.8	6.7	16.4	3.8
Latin America	4.2	7.3	23.5	-3.3
East and South Asia	1.3	5.7	7.7	3.0
Production				
World	2.8	2.4	2.0	2.9
Developed market economies	2.6	1.7	1.9	1.8
Developing market economies	3.6	3.1	2.9	2.9
Centrally planned economies	2.3	2.5	2.6	4.0

Source: FAO Production Yearbooks and FAO Trade Yearbooks.

[a] 1967-71.

The slowdown experienced in the past five years can be seen as the inevitable result of the correction of the inflationary excesses of the 1970's. Heavily indebted countries in Latin America and Eastern Europe had to reduce their food imports and increase their production and/or exports. Slower rates of income growth slowed down the demand for food.

But it is an exaggeration to say that export markets have "collapsed". Among exporting countries, only the U.S. experienced an absolute decline in export volume and that was due entirely to its loss of market share. Total world export volume increased at an annual rate of 1.7 percent. Imports of developing market economies as a group increased at an annual rate of 3.8 percent. Much of the slowdown in this group is caused by the sharp absolute decline in the financially pressed Latin American countries. Imports of the centrally planned economies, which had risen sharply in the 1970's, failed to increase further as the erratically rising trend in the USSR was offset by declines in Eastern Europe and the PRC.

Recent analyses by the Grain Division of the Foreign Agricultural Service throw further light on recent developments. Our competitor's grain exports increased in the past five years while U.S. exports dropped. Grain imports by developing countries continued to grow, with nearly all of the growth accounted for by middle-income countries. Japanese imports of coarse grains continued to grow while those of Western Europe dropped sharply. The net grain deficit of the developing market economies continued to rise.

Looking across table 2, there are a few instances where trends become apparent. The rate of growth of agricultural exports from Latin America has been increasing steadily and that of Western European imports has been declining since the early 1970's. There is evidence of accelerated production growth in South and East Asia. Asian rice production has recently run ahead of its long-term trend. The PRC and India have increased their production of oilseeds and cotton. There are some widely cited instances where former food deficit countries in Asia have become exporters of certain agricultural products. Yet East and South Asia remain fast-growing agricultural import markets.

There is not much in these data that would support the hypothesis of a permanent change in world agricultural trade trends. All we can say for certain is that the 1970's boom has made way for a recession that is also likely to be temporary.

Long-Term Prospects for World Market Growth

The only way to arrive at a realistic assessment of future trade prospects is to analyze, country by country, the growth of demand as a function of such basic determinants as population and income growth and to compare it with the likely growth of domestic production, as determined by each country's resource endowment, technological trends, and policies (to the extent that they are predictable). This is what we have tried to do, in a set of projections to the end of the century by RFF's National Center for Food and Agricultural Policy in cooperation with Economic Perspectives, Inc. Although completed two years ago, we believe that with a few minor exceptions, the assumptions and relationships on which these projections are based continue to be valid.

Since the results of the study are available in considerable detail,[3] I shall confine my presentation to the major findings regarding demand, production, and trade and a few comments on major uncertainties that may affect their validity.

Demand

The projections recognize effective economic demand as the driving force in the expansion of the global food system. That demand will continue to grow, but at a slower rate than in the 1970's. For cereals, the annual rate of increase is projected at 1.8 percent, down from 2.6 percent in the 1970's. For oilseeds, the projected rate of growth is 2.3 percent, down from 3.8 percent; for meat, 2.4 percent as compared with 3.1 percent; for milk, 1.5 percent as compared with 1.7 percent (Table 3.)

Table 3. Annual Rates of Growth of Aggregate Domestic Demand

Region	Meat		Milk		Cereals		Oilseeds	
	(%)							
	A*	B	A	B	A	B	A	B
North Africa/Middle East	5.7	5.4	5.3	3.3	4.5	2.5	4.6	3.6
Sub-Saharan Africa	2.8	2.9	1.2	2.9	2.4	3.0	1.2	2.4
EC-10	2.2	0.7	0.7	0.3	0.8	0.4	6.6	1.5
Other Western Europe	3.9	1.8	1.1	0.9	3.6	1.5	7.5	2.3
USSR	2.6	2.1	1.9	1.0	3.3	1.6	0	2.5
Eastern Europe	4.0	1.5	2.0	1.1	3.2	1.1	7.5	2.1
South Asia	3.1	3.7	3.5	2.7	2.2	2.2	1.0	2.0
East Asia	5.7	5.2	4.3	2.5	3.2	2.6	5.2	4.5
Asian centrally planned economies	4.4	3.1	4.4	3.0	3.8	1.7	2.0	2.9
Oceania	2.5	1.5	−0.2	1.6	3.9	3.2	9.4	7.8
Latin America	3.7	3.8	3.2	3.1	3.6	2.7	4.2	3.5
North America	2.1	0.9	0.7	0.9	0.4	1.2	4.0	1.3
World	3.1	2.4	1.7	1.5	2.6	1.8	3.8	2.3

* A is 1969–71 to 1978–80; B is 1978–80 to 2000.

The trend factors responsible for this slowdown are reduced rates of population growth (except in Sub-Saharan Africa), slower income growth, and declining income elasticities of demand for food, especially the approaching satiation of demand for livestock products in the affluent countries. In addition, balance-of-payments constraints are likely to be more severe, particularly for Latin America and Eastern Europe, than in the "easy credit" 1970's. These factors, taken together, will more than offset the positive effects on the rates of growth of food demand of the dietary transition toward increased livestock consumption in the middle-income, newly industrialized countries.

Despite the reduced rates of growth, the prospective absolute increases in aggregate demand are very large. World demand for meat is projected to increase by 64 percent, for milk by 36 percent, for grains by 46 percent, and for oilseeds by 62 percent. The largest percentage increases will be in the developing world, including China. Demand in the developed world, including the USSR and Eastern Europe, is leveling off because of low population growth and the near saturation of demand for livestock products (Table 4.)

Table 4. Anticipated Growth in Aggregate Demand

(in millions of metric tons)

Region 1/	Meat			Milk			Cereals			Oilseed			Fiber		
	1978-80	2000	Increase	1978-80	2000	Increase	1978-80	2000	Increase	1978-80	2000	Increase	1978-80	2000	Increase
North Africa/ Middle East	4.4	13.2	8.8	21.8	43.0	21.2	84	142	58	5	10	5	1.0	1.7	.7
Sub-Saharan	5.4	9.9	4.5	10.5	19.3	8.8	58	108	50	5	9	4	.5	.8	.3
European Community	21.9	25.4	3.5	104.1	111.0	6.9	123	133	10	32	44	12	1.3	1.2	-.1
Other Western Europe	5.0	7.3	2.3	22.0	26.3	4.3	42	58	16	6	10	4	.4	.4	—
USSR	15.8	24.3	8.5	95.9	118.3	22.4	220	306	86	12	20	8	2.9	3.6	.7
Eastern Europe	10.7	14.8	4.1	45.2	56.7	11.5	109	139	30	11	17	6	1.1	1.2	.1
South Asia	1.9	4.1	2.2	41.8	72.7	30.9	183	291	108	11	17	6	4.6	6.4	1.8
East Asia	6.5	18.7	12.2	8.9	15.1	6.2	130	224	94	9	23	14	2.3	3.5	1.2
Centrally Planned Economies of Asia	22.5	42.4	19.9	7.7	14.3	6.6	318	457	139	20	37	17	4.7	7.3	2.6
Oceania	2.3	3.2	0.9	6.3	8.8	2.5	8	16	8	—	2	2	.5	.4	-.1
Latin America	13.6	29.5	15.9	35.7	68.0	32.3	91	161	70	9	18	9	1.3	1.9	.6
North America	28.3	33.9	5.6	65.1	79.1	14.0	200	254	54	33	43	10	1.2	1.5	.2
World	138.2	226.7	88.5	464.9	632.5	167.6	1568	2290	722	154	249	95	21.8	29.9	8.1

Production

Detailed examination of land and water resources and of the possibilities of raising yields by increase applications of inputs and technology suggests that all regions except Sub-Saharan Africa may be expected to meet the increased demand largely out of increased domestic production. While the rates of growth of demand are particularly large in some of the developing regions, these are also mainly the regions where technology has been lagging and the potential for productivity growth is, therefore, relatively great. Realization of this potential will require massive investments in land improvement, irrigation, research, and extension; adequate inputs of fertilizer, pesticides, improved seeds; improved marketing and storage facilities and adequate economic incentives.

Cereals are most important since they account for about three-quarters of the world's crop area and production. As can be Seen in Table 5, the annual rate of increase in production is 1.8 by percent--significantly less than the 2.6 percent annual growth experienced in the 1970's. Most of the increase in production will come from improved technology rather than additional land, as has been the case for the past several decades; indeed, area expansion is expected to contribute only 15 percent of the production growth, as compared with 25 percent in the 1970's. In absolute magnitude, the harvested grain area, which increased by 46 million hectares in the 1970's, is projected to increase by 40 million ha in the years 1980-2000.

Table 5. Annual Rates of Growth of Cereal Grain Production

(in percent)

Region	Area		Yield		Production	
	1969–71 to 1979–81	1979–81 to 2000	1969–71 to 1979–81	1979–81 to 2000	1969–71 to 1979–81	1979–81 to 2000
N. Africa/Mid. East	0.06	0.18	2.04	2.17	2.10	2.35
Sub-Saharan Africa	1.17	0.70	0.93	1.00	2.10	1.70
EEC	0.09	0.14	2.39	1.26	2.30	1.12
Other Western Europe	-0.17	0.10	1.76	2.56	1.58	2.46
USSR	0.53	0.05	-0.20	2.26	0.33	2.31
Eastern Europe	-0.43	0.08	2.75	1.08	2.31	1.16
S. Asia	0.42	0.14	1.94	1.97	2.37	2.11
E. Asia	1.12	1.28	1.47	1.21	2.60	2.51
Asian centrally planned economies	0.21	0.22	3.44	1.85	3.65	1.63
Oceania	3.20	2.10	0.78	1.16	4.00	3.29
Latin America	0.73	0.49	2.18	1.98	2.92	2.48
N. America	1.75	0.24	1.71	1.11	3.50	1.35
World	0.65	0.27	1.94	1.56	2.60	1.83

Above average rates of growth of grain production are projected for Oceania East and South Asia, Latin America, North Africa/Middle East, other Western Europe, and the USSR, but only in the last three of these regions does this represent an acceleration from the 1970's. For North America, the projected rate of growth is less than half that experienced in the past decade. Only two regions--North Africa/Middle East and East Asia--are expected to increase cereal area more rapidly than in the 1970's.

The chief uncertainity concerns the USSR, where yields declined significantly in the 1970's. Increasing experience in the new lands and investment in better varieties and practices are expected to halt that trend, and yield increases greater than the world average are expected over the next two decades. Even with the projected increases, yields in the USSR would continue below the world average. They were 22 percent below average in 1969-71, 33 percent below in 1979-81, and are projected to be about 24 percent below in 2000.

Both South Asia and the Asian centrally planned (ACP) economies have had success in increasing yields through improved varieties and practices. While the ACP is not likely to be able to match the very great increases of the past few years over the next two decades, both regions are expected to continue to invest in yield-improving varieties and production inputs, and to continue significant increases until the end of the century.

Trade

In most regions of the world, production growth will continue to fall short of the growth in demand. The projections show increased dependence on grain imports from North America and Australia, oilseeds from the U.S., Brazil, and Argentina, and meat from Oceania and Western and Eastern Europe. Aggregate regional net imports are projected to increase by 200 percent for meat, 60 percent for dairy products, 85 percent for cereals, and 52 percent for oilseeds. The most rapidly growing markets will be in East Asia and North Africa/Middle East. Massive food aid will probably be required if Sub-Saharan Africa is to cover its rapidly growing grain deficit, which is projected to reach 29 million tons by the end of the century (Table 6.)

Implications for the U.S.

Total demand for American agricultural products, for domestic consumption plus exports, will continue to grow but much more slowly than during the 1970's (Table 7).

Table 6. Projected Regional Net Trade

(in millions of metric tons)

Region	Meat		Milk		Cereals		Oilseed	
	1978-80	2,000	1978-80	2,000	1978-80	2,000	1978-80	2,000
North Africa/ Middle East	-.7	-3.9	-6.3	-12.9	-24.1	-46.5	-1.4	-5.4
Sub-Saharan Africa	—	—	-.7	-1.3	-4.4	-29.3	2.2	-1.2
European Community	-.4	1.0	8.0	14.8	-1.2	20.0	-30.4	-39.3
Other Western Europe	-.2	-.2	1.0	-1.0	-9.7	-8.3	-5.1	-7.4
USSR	-.5	-.5	-3.0	-2.0	-24.6	-29.8	—	1.1
Eastern Europe	.6	1.0	-.1	-.1	-14.2	-19.7	-6.9	-8.2
South Asia	—	—	-.5	-.5	-2.1	-13.8	2.7	2.1
East Asia	-.8	-1.2	-1.7	-2.6	-29.8	-53.1	-5.9	-16.6
Centrally Planned Economies of Asia	.2	.4	-.2	-.6	-15.0	-31.6	-1.1	1.8
Oceania	1.6	5.0	5.9	9.3	14.0	25.3	—	-1.2
Latin America	.5	-1.6	-2.1	-3.9	-5.8	-9.8	15.2	19.7
North America	—	—	-1.1	-1.1	122.9	196.6	34.2	54.4

(-) = Imports

(+) = Exports

Table 7. Historic and Projected Global Demand for U.S. Agricultural Products

	1969-71			1979-81			2000			1970s	1979-81 to 2000
Commodity	Domestic	Net Trade	Total	Domestic	Net Trade	Total	Domestic	Net Trade	Total	Annual Growth of Total Demand	
	(million metric tons)									(%)	
Cereals[a]	171.0	39.0	210.0	192.7	109.6	302.3	227.0	168.2	395.3	3.7	1.3
Oilseeds[b]	20.2	17.0	37.2	31.5	33.3	64.8	38.1	53.9	92.0	5.7	1.6
Meat	21.9	.6	21.3	24.5	0	24.5	29.2	0.1	29.3	1.4	0.9
Milk	53.4	−.2	53.2	59.0	−0.8	58.2	71.1	−0.9	70.2	0.9	0.9
Cotton	1.71	0.51	2.22	1.47	1.54	3.01	1.42	2.20	3.62	3.1	0.9

[a] Includes food, food, seed, industrial use, and waste.

[b] Includes oilseed trade, in oilseed equivalent.

Table 8. Historic and Projected Area and Yields of U.S. Grains and Oilseeds

	Area (mill. ha.)			Yield (kg./ha.)			Production (mill. metric tons)		
Commodity	1969/71	1979/81	2000	1969/71	1979/81	2000	1969/71	1979/81	2000
Cereals	60.7	72.6	76.8	3,458	4,162	5,148	210.0	302.3	395.3
Wheat	18.7	28.9	29.0	2,144	2,291	2,375	40.0	66.2	68.8
Corn	23.7	29.7	36.5	5,164	6,500	7,900	122.6	192.9	288.7
Oilseeds	23.3	35.8	41.2	1,596	1,800	2,234	37.2	64.6	92.0
Soybeans	17.0	27.7	31.6	1,830	2,000	2,439	31.2	55.3	77.1
Cotton lint	4.54	5.38	5.75	490	560	630	2.22	3.00	3.62
Total area in cereals, oilseeds, and cotton	89.5	113.8	123.8						

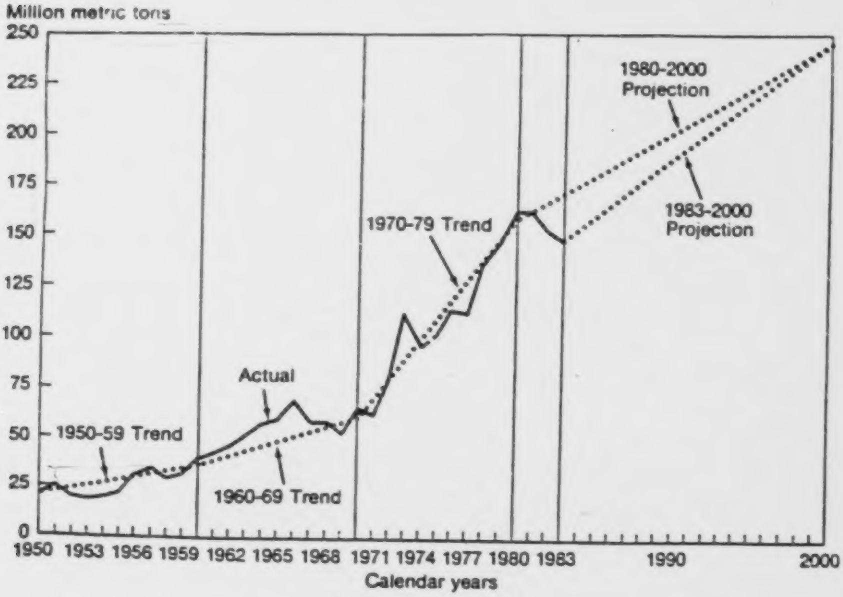
Table 9. Historic and Projected Annual Rates of Growth of Area, Yield, and Production for Major U.S. Agricultural Commodities

	Area		Yield		Production	
Commodity	1969/71–1979/81	1979/81–2000	1969/71–1979/81	1979/81–2000	1969/71–1979/81	1979/81–2000
	(%)					
Cereals	1.8	0.3	1.9	1.0	3.7	1.3
Wheat	4.5	0	0.7	0.2	5.2	0.2
Corn	2.3	1.0	2.3	1.0	4.6	7.0
Oilseeds	4.4	0.7	1.2	1.1	5.7	1.8
Soybeans	5.0	0.7	0.9	1.0	5.9	1.7
Cotton lint	1.7	0.3	1.3	0.6	3.1	0.9

The total area in basic crops, which rose from 90 to 113 million hectares in the 1970's, is projected to increase to 124 million hectares by the end of the century--a rate of increase only one-fourth that experienced in the 1970's. Grain acreage is projected to increase by only 10 million acres in twenty years, compared with the 30 million acre increase in the 1970's. Three-fourths of the required increase in cereals production is expected to come out of increased yields, as compared with half in the 1970's. (Tables 8 and 9). In contrast with the 1970's, when over three-fourths of the increased oilseed production came out of acreage expansion, it is expected that almost two thirds of the much slower future increase in demand can be met from increased production per acre.

U.S. exports of cereals are projected to increase from 110 million metric tons in 1979-81 to 168 million at the end of the century, a 53 percent increase in 20 years, compared with the tripling in the 1970's. Oilseed exports are projected to increase from 33 million tons in 1979-81 to 54 million tons, a 64 percent increase in 20 years compared with the doubling observed in the 1970's. Cotton exports are projected to grow by 43 percent in 20 years compared with the tripling in the 1970's. In terms of annual growth rates grain exports will decline from 11 percent to 2.2 percent, oilseeds from 7 percent to 2.4 percent, cotton from 11 percent to 1.8 percent. The total volume of U.S. agricultural exports, which rose more than 10 percent annually during the 1970's, will return to a more normal long-term growth rate of 2.3 percent in the period from 1979-81 to the end of the century (figure 1). (It should be kept in mind that 1979-81 marked a peak in U.S. farm exports. If 1983 is used as a base, the projected annual growth to 2000 is 3.1 percent.)

Figure 1. U.S. Agricultural Export Volume, 1950-2000



Given the slow growth of domestic demand (none in the case of cotton), exports nevertheless will continue to be the main source of market growth. Exports will account for two-thirds of total grain demand growth, three-fourths of total oilseed demand growth, and all of the cotton demand growth. The share of exports in total demand will be 43 percent for grains (up from 36 percent in 1979-81), 59 percent for oilseeds (up from 51 percent), and 61 percent for cotton (up from 51 percent). For meat and dairy products, net trade will continue to be insignificant. The annual growth of domestic demand for meat is expected to slow from 1.4 percent in 1970's to 0.6 percent in 1980-2000; that for milk is projected to continue at just under 1 percent.

Major Uncertainties

All projections of this kind are subject to uncertainties at every step in the analysis. The most important of these stem from general economic policies, which may affect the global economic climate, and from unexpected changes in national agricultural and food policies.

Faster economic growth would have a favorable effect on food consumption, production, and trade. For example, if economic growth should turn out to be one-half of one percentage point higher than is assumed in the baseline projections, world demand for meat would be 8.6 percent greater and global meat imports 42 percent greater. Foreign demand for U.S. grain would be about 10 million tons greater. The reverse would be roughly true if world economic growth should be less than projected.

Even more important for agricultural trade could be the balance-of-payments effects generally associated with higher or lower economic growth rates. Should high real interest rates and tight credit markets continue into the 1990's and the debt problems remain unresolved, many food-importing developing countries would be forced to tighten their belts further, to reduce their imports, and try to expand their exports. This, in turn, together with slow economic growth in the developed countries, might lead the latter to raise new barriers to imports. The effects on our agricultural exports could be severe.

Agricultural and food policies can also be important, as the centrally planned countries proved in the 1970's. The long-term trends of trade with heavily managed economies are, clearly, less predictable than those with most market economies. However, there is virtually no government that does not intervene extensively in its agricultural markets by means of regulation, subsidization, or protection. These policies can change, with significant effects on food production and consumption and, especially, on agricultural trade.

Finally, it is important to keep in mind that these are trend projections. Large and prolonged deviations from trend are possible and, indeed, likely. Foreign demand for U.S. farm products will continue to be volatile, and its impact on U.S. agriculture will grow. As between market trends and market instability, it may well be that the latter will pose the greater challenge to American policy.

Conclusions

1. The sharp drop in U.S. agricultural exports since 1981 is due, in the main, to our loss of market share. The decline in our competitiveness, in turn can be traced largely to impediments of our own making. Two of these--the overvalued dollar and noncompetitive market supports--have now been removed. The new farm legislation will help to achieve a partial recovery of U.S. agricultural exports in the next three years--but at a huge budget cost that will not be sustainable for very long.

2. The slowdown of world agricultural trade in the past five years can be seen as an inevitable reaction following the inflation-fed boom of the 1970's. There is little evidence to support the view that it represents a watershed in the long-term trend. True, there has been some acceleration of production growth, especially in East and South Asia. On the other hand, demand growth is holding up remarkably well in most developing countries. The grain deficit of the developing market economies, as a group, is still increasing.

3. Long-term projections based on conservative assumptions concerning population and income growth and a detailed country-by-country analysis of resource endowments, technological trends, and policies suggest that world agricultural trade is likely to resume its long-term growth at an annual rate of about 3 percent--substantially less than during the 1970's but about equal to the rate experienced in the 1960's. The projections show increase dependence on grain imports from North America and Australia, oilseeds from the U.S., Brazil, and Argentina, and meat from Oceania and Western and Eastern Europe. Aggregate regional net imports are projected to increase by 200 percent for meat, 60 percent for dairy products, 85 percent for grains, and 52 percent for oilseeds, from 1980 to 2000. The most rapidly growing markets will be in East Asia and North Africa/Middle East.

4. U.S. agricultural exports are expected to share in the growth of world agricultural trade. U.S. grain exports are projected to increase to 168 million metric tons at the end of the century--a 53 percent increase from 1980 to 2000, compared with the tripling in the 1970's. Oilseed exports are projected to increase from 33 million tons to 54 million tons--a 64 percent increase compared with the doubling observed in the 1970's. Cotton exports are projected to grow by 43 percent in 20 years compared with the tripling in the 1970's. The volume of U.S. agricultural exports, which rose more than 10 percent annually during the 1970's, will return to a more normal long-term growth rate of 2.3 percent in the period 1980 to 2000. If 1983 is used as a base, the projected annual growth to 2000 is 3.1 percent. Given the slow growth of domestic demand, exports will continue to be the main source of market growth.

Note: Footnotes to the above article follow:

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[1] The views expressed are solely those of the author and in no way constitute a statement of policy of Resources for the Future.

[2] Policy Briefing Summary: The Food Security Act, Gramm-Rudman-Hollings, and the U.S. Agricultural Economy. Washington, D.C., February 13, 1986.

[3] Food and Fiber Projections to 2000, published in Joint Council on Food and Agricultural Sciences, Reference Document, Needs Assessment for the Food and Agricultural Sciences, Washington, D.C., January 1984. See also Fred H. Sanderson, "World Food Prospects to the Year 2000", Food Policy, November 1984; and "An Assessment of Global Demand for U.S. Agricultural Products to the Year 2000: Economic and Policy Dimensions," American Journal of Agricultural Economics, December 1984.

JUNE 17, 1986 HEARING

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I'm pleased to be here to receive testimony about Foreign Agricultural Service (FAS) cooperators and the Agricultural Export Commission. This is the second in a series of hearings in the Subcommittee on Foreign Agricultural Policy on agricultural trade issues.

The FAS cooperators program combines Federal and private sector funds to enhance the export of commodities. This program is funded by the Federal Government, corporations, and finally, the private sector. The funds are used only by organizations that are registered with the FAS cooperators program, but the program is designed to benefit everyone.

The Agricultural Export Commission was set up to improve the share of U.S. exports sold abroad. This Commission is due to present its report to Congress on July 1, 1986. I look forward to reading about the progress the United States has made, as well as the Commission's suggestions for improving the U.S. share of agricultural exports. If our farmers continue to be unable to sell their products overseas, their very economic existence is threatened.

As a ranking member of the Subcommittee on Foreign Agricultural Policy, I am pleased to have this opportunity to hear firsthand about developments of the FAS cooperators program and the Agricultural Export Commission.

I hope that the Administration will aggressively pursue these issues in the GATT talks. Thank you, Mr. Chairman.

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, there is a need to examine the role of agricultural export sales of U.S. farm products. I believe that the series of hearings that continue today can be of great importance in highlighting the importance of trade for the financial well-being of our Nation's farms. I am concerned that so little action has been taken to counter the disastrous plunge in export sales that has occurred in the past few years. The loss of export sales has been a devastating blow to this Nation's financially strapped farmers. I hope that the committee's continued oversight on export trade matters will impress upon the administration the need for immediate action in three areas:

First, farmers must see an immediate increase in agricultural export volume. In the last fiscal year, farm product exports declined by a record amount and totaled only 75 percent of the volume of 1980-1981. Aggressive leadership in negotiations directed at multi-year sales agreements can help to accomplish this goal.

Second, better use can be made of export programs to counter or offset unfair trade practices of competitor nations. The administration has all the necessary program authority to enable potential customers to obtain U.S. products on terms every bit as good as terms offered by competitor nations.

Third, full use must be made of programs designed to use the agricultural abundance of the United States to combat world hunger and malnutrition.

Unless rapid and decisive action is taken to reverse the trend, sagging export sales will lead to the unhappy prospect that the United States may soon become a net importer of farm products. We, as a Nation, must not allow that tragic circumstance to occur. We must not squander a major strategic defense advantage --our ability to feed ourselves.

Mr. Chairman, I will review today's testimony, and I thank the witnesses for their contributions to the hearing.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman: Again, I welcome the opportunity to continue this dialogue to prepare for the upcoming GATT negotiations. As I pointed out during the first hearing of this series, it is imperative that we develop our perspective on the priorities to be advanced by our representatives at this economic summit.

The Foreign Agriculture Service is certainly a strong ally of the American farmer, especially given our growing reliance upon export markets. Since 1954, through analysis of supply and demand conditions for agricultural commodities around the world, assistance in formulating trade policies, and developing foreign markets for U.S. farm products, FAS has played a vital role in expanding agricultural trade. I believe that it is through these efforts that we will go far towards regaining our lost market share.

One of their major activities, and the subject of today's hearing, is the Cooperator Market Development program. FAS coordinates farm-oriented groups which represent their commodity interests throughout the country or a major production area. These cooperators promote their commodities by working with foreign buyers in helping them choose the right U.S. product, and by creating a demand for products for which there is substantial sales growth potential.

More than 56 groups operate promotional activities throughout the world, working to increase exports of almost every agricultural commodity we export, pooling funds and expertise from the Government, the private sector, and foreign sources. Two examples of the Cooperator program's past projects illustrate the potential of this type of activity. FAS's support of the U.S. Feed Grains Council in developing lamb production in Southern Europe, the Middle East, and North Africa led to a large growth in U.S. feed grain sales. Work with the U.S. rice and wheat industries in market expansion projects in Iraq has turned that country into a large customer.

FAS is currently refocusing its cooperator market development efforts towards areas with substantial potential for increased export demand--the Middle East, Africa, Latin America, the Carribbean, and South East Asia. Certainly FAS, through this program, will be a major instrument in establishing new markets for American agriculture.

I applaud the efforts of the Foreign Agricultural Service, particularly those of the Cooperator Market Development program. Especially in the light of our current agricultural commodities, they will play a greater role in working to see that American farmers can sell the product which they can so effectively produce.

And this brings up an interesting contrast. While we engage in export expansion activities as described above, we must compete with blatantly protected agricultural economies, like those of the EEC. Our farmers face variable levies on their markets and their subsidized commodities on world markets. The GATT, as our primary forum for working over trade disputes, must address these imbalances. Neither our Cooperator program, nor any of the activities of the FAS, can deal with the inequities alone.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Good morning, Mr. Chairman. It's a pleasure to be here again to continue your series of hearings on the new GATT round. You have again selected two important hearing topics: the Foreign Agricultural Service's cooperator programs; and the findings of the National Commission on Agricultural Trade and Export Policy. Since we are currently commemorating National Agricultural Export Week, today's hearing topics are especially appropriate.

As the committee knows, cooperator programs benefit farmers in many States. Several of the cooperators who receive Federal dollars to match their own expenditures for export promotion are California farm and commodity organizations. The products they promote--including grapes, raisins, peaches, avocados, citrus, pistachios, walnuts, wine, and almonds, among others--are unsubsidized commodities that wisely rely upon market development, not Government subsidies, for future growth. The marketing efforts of these producers have resulted in many success stories.

One example is the pistachio industry in my State. In 1984, the California Pistachio Commission received a $30,000 market development award from USDA that it matched with $30,000 contributed by my State's pistachio growers.

California's only competitor for pistachio exports is the government of Iran. As you may know, our Government has determined that Iran has a 240 percent export advantage over California because of its predatory dumping practices. The California pistachio industry, no matter how efficient, could not have competed alone against these outrageously unfair Iranian trade practices. But with the help of matching funds for the market development program in Singapore, California pistachio exports to that market increased by 500 percent (from 10 to 55 metric tons) in one year!

The California Cling Peach Advisory Board, a long-time cooperator, informed me recently of several success stories in the Japanese market. Earlier this year, the canning peach industry established a retail program with the largest chain store in Japan. In just 6 months, 40,000 cases, worth over $600,000 have already been merchandised. Peach exporters have also begun to freeze their product for remanufacture in Japan, while going to smaller can sizes. These kinds of new market developments hold long term export growth potential.

Peach growers and canners in California assure me that FAS cooperator funds has enabled them to develop markets in the Pacific Rim to offset markets that they have lost due to unfair trading practices by the European Community. Indeed, without the industry's participation in the FAS cooperator program and its work with USDA's representatives in the Orient, U.S. canned peach exports in the past 2 years could have been zero.

The 1984 Wine Equity and Export Expansion Act helped the wine industry establish foreign market promotion activities under the cooperator program. Matching FAS funds of about $600,000 were used in 1985 to promote wines in four countries. The majority of these funds has been used in Japan, increasing sales of our wines by 138 percent from 1984 to 1985. In dollar terms, the FAS seed-money of less than $400,000 resulted in additional sales of almost $3 million of $7.50 in increased exports for every $1.00 spent. And that was in the start-up year of the program. Imagine the sales potential if we could break down the Japanese trade barriers to our wine imports!

The California Avocado Commission, an advertising and promotional organization created in 1976 by the California State Legislature, exemplifies successful market development through the FAS cooperator program. In 1976, the Commission began a major marketing program in Japan, 500,000 pounds of avocados were shipped that year. Over the next 9 years, the industry and FAS each spent $1 million developing the Japanese market. The result is that in 1985, total avocado shipments to Japan reached 4.4 million pounds. This represents an 800 percent increase!

These success stories are examples of a private-public partnership where relatively little Government funding results in significant returns to the American economy through increased agricultural exports. The potential for market-oriented specialty crops to develop international export markets--both by breaking down trade barriers and working through the cooperator program--is unlimited! I am sure that we will be hearing similar success stories regarding exports of almonds, wheat, poultry, and forest products from our witnesses, today.

Mr. Chairman, I also have additional statements from the California Avocado Commission, the California Pistachio Commission, the Wine Institute, the California Raisin Advisory Board, the California Table Grape Commission, Western Growers Association, the California Canning Peach Association and Sun-Diamond Growers of California, and I ask unanimous consent that they be made part of the record. Their statements will further document the success of the cooperator program and its specific marketing and export achievements. I hope that those individuals, in the future, who may question the value or the results of the cooperator program will look to this record of achievement to dispell any doubts which they may have.

Finally, Mr. Chairman, let me welcome Fritz Gwin, who has come to present the long-awaited finding of the National Commission on Agricultural Trade and Export Policy. Over the past 2 years, the

Commission has carried out its Congressional mandate in a professional and thorough manner. I found this to be true last September when I participated in the Commission's field hearing in Fresno. At that time, the Commission had published its interim findings, and they were already quite impressive. So it is a pleasure to have Mr. Gwin with us today to present the final recommendations. I look forward to his hearing his testimony, and to implementing the Commission's recommendations to increase American agricultural exports.

STATEMENT OF WINSTON WILSON, CHAIRMAN, U.S. AGRICULTURAL EXPORT DEVELOPMENT COUNCIL

Mr. Chairman and members of the subcommittee. I am Winston Wilson, president of U.S. Wheat Associates, and am currently serving as Chairman of the U.S. Agricultural Export Development Council, and it is on behalf of that organization that I appear here today. Along with me are Richard Buchanan from the National Forest Products Association, Elbert Boyd from the USA Poultry and Egg Export Council, and Steven Easter from the California Almond Growers Exchange.

I would like to commend the Subcommittee on Foreign Agricultural Policy for holding these hearings. They are extremely timely, and I believe that it is important that the Senate Committee on Agriculture have a better understanding of the Foreign Agricultural Service Cooperative Market Development Program.

The program was initiated in 1955 as a result of a section of P.L. 480 passed in July of 1954 which authorized up to 5 percent of foreign currency generated by sales of U.S. agricultural products to be spent for market development for U.S. farm products. Some years later, the funding was shifted from foreign currency proceeds to normal appropriation process where it remains today.

Since the initial cooperative agreement signed between the U.S. Department of Agriculture and the Cotton Council International, the program has grown to include more than 60 commodity organizations which currently have activities in about 130 foreign countries. In my view, the program has been an unparalleled success and has often been cited by other U.S. industries as a blueprint for developing markets for U.S. products overseas. However, to this point, this partnership between Government and private sector is unique to the agricultural industry.

Participation in this program is extremely diverse, running the gamut from the basic commodities such as wheat, corn, and soybeans, all the way to more exotic agricultural products such as mink, papaya, cranberries, and wine. The diversity of products which are represented in this program is, I believe, testimony to the effectiveness of the program in terms of developing export markets. Funding of market development activities by cooperators is jointly provided by producers, industry groups, and in a few cases State governments, and the Foreign Agricultural Service of USDA. In fiscal year 1985, the Foreign Agricultural Service provided $29 million, the non-Government producer and industry groups $35 million, and $29 million came from foreign third party participants. As you can see, while the Government's contribution to the program is certainly significant, it only amounts to about one-third of the total expenditures for market development activities. I believe that this kind of commitment from industry speaks highly of the success of these activities.

The question has often been raised as to why it is necessary that Government funding be made available for market development activities. I believe that there are several very good arguments for Government participation in these programs. One strong argument for government participation is the fact that while most of the industry funding for such activities is paid by the agricultural producers themselves, the benefits of increased exports are spread fairly wide throughout the U.S. economy. The benefits not only include the increased business activity generated by a high volume of exports, but the considerable tax savings which result from high exports and lower costs of Government agricultural programs. Another very important consideration is the fact that for many commodities which are grown virtually throughout the country, there are a very limited number of state checkoff boards which collect money from market development activities. In the case of wheat which is grown to some extent in about 40 States in the United States, there are only 14 States which currently have wheat commissions, but U.S. Wheat Associates, the wheat market development organization, promotes the sale of all classes of wheat from all geographic areas. Consequently, not all of those areas receiving the benefits are directly contributing to market development activities. Consequently, there is a rationale for public funding of these activities.

An additional factor which must be taken into account is that other than the cooperator organization there are no other groups actively involved in the promotion of U.S. agricultural exports. When we look at market development expenditure as a percentage of export sales, the United States, even with the cooperator program, is spending less than any other major exporter in the world. Our 0.17 of 1 percent is particularly low when one considers the vast commitment made by Congress in the 1985 farm bill to increasing export sales to the tune of $8 billion. One would have to conclude that an investment of less than $30 million per year in market development funding is not only justified but should be increased.

Market development activities involve a varied number of tasks, but they can be categorized into two primary objectives: (1) to expand product usage; and (2) to see that the U.S. share of sales of that product is as high as possible. Under these categories, a number of distinct activities and tasks are pursued, including identification of market opportunities, introduction of new products and processes, consumer advertising, removal of trade barriers, and removal of technical barriers and trade servicing. Since the United States is one of the few agricultural exporting countries in the world which does not do business on a government-to-government basis, it is very important that there be an umbrella industry group to promote the sale and use of U.S. products. Because our marketing system, particularly for bulk commodities is much more complex than other major exporters, it is important that the marketing process be well understood by customers and potential customers in order that they can effectively use our system.

Probably the most exciting area of market development is the introduction of new products and then the pleasure of seeing a market which did not previously exist grow and then become a major outlet for export products. This story has been repeated over and over again in the course of history of the agricultural market development program, and I am sure you will hear specific examples from other members of the panel. But two examples from other members of this approach from the bulk commodities which come to mind are a heavy lamb project in Spain by the U.S. Feed Grains Council in the early 1970's and U.S. Wheat efforts in Asia.

The Feed Grains Council project which introduced grain-based lamb feeding to Spain through a comprehensive program including animal health and flock management resulted in a growth of the grain feeding industry from zero to two million head per year, and resulted in growth in U.S. feed grains exports at an annual rate of $3.4 million per year, and soybean imports growing at a rate of a little under $1 million per year.

Similar projects undertaken by U.S. Wheat Associates in Asia during the past 20 years have resulted in significant increases in wheat consumption in many countries which had very negligible levels of consumption before market development areas were undertaken. Some of the major wheat export markets for the U.S. including Korea, Japan, Taiwan, and the Philippines were almost nonexistent markets for U.S. wheat prior to market development efforts in these countries. Our most recent efforts have been concentrated in the People's Republic of China in which we have been involved in the introduction of instant noodles, western-style bread production, and other wheat-based fast foods, and are already seeing very dramatic results in Chinese wheat consumption as a result of these efforts. In 1983, U.S. Wheat Associates established an instant noodle factory in Shanghai to promote the use of wheat-based noodles. Since that time, in only 3 years the Chinese have purchased more than 70 of these factories and the use of instant noodles in southern China has increased dramatically. Other projects in China have included a mechanized western-style bakery and a modern flour mill which is serving as a model for the modernization of the Chinese flour milling industry. These projects in conjunction with the establishment of several baking schools in various parts of China are designed to improve the quality of Chinese wheat food products and to increase consumption. They have been extremely successful in moving toward these goals. However, unfortunately recent trade and political problems with the People's Republic of China has limited the ability of the U.S. to sell wheat to China. Nonetheless, consumption of wheat is continuing to grow at an accelerated rate, and we expect to see the benefits of this increased consumption in years.

These kinds of activities which result in increased demand and consumption of U.S. agricultural products were, in my view, one of the major factors in the rapid growth of U.S. exports during the decade of the seventies. Consequently, it is critical that these efforts be continued in order that there is a market for U.S. agricultural products for the decades to come. This is particularly important in view of our heavy dependence on export markets as a potential solution to our serious agricultural problems in this country.

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT, CALIFORNIA ALMOND GROWERS EXCHANGE, SACRAMENTO, CA

The California Almond Growers Exchange is a cooperative processing and marketing organization with over 5,000 member-growers. The Exchange processes approximately 60 percent of the California crop and markets it under the Blue Diamond label. Sales of almonds are made to the United States and approximately 90 foreign countries. Almonds are the number one food export from California and number seven food export from the United States. The Exchange has been involved in exports for many years.

The first exports of California almonds went to U.S. neighbors and to a few European countries where consumers were already familiar with almonds and almond products. The concerted export market development effort which continues to generate increased exports to this day was initiated by the Exchange just after World War II. At that time, Japan was a very minor user of almonds. Initial shipments of California almonds to Japan were made in 1955.

JAPAN: FAS BEGINS ASSISTING IN EXPANSION OF ALMOND EXPORTS

In the early years, the almond export business was rather slow to develop and in some cases was slightly disappointing. For example, in Japan the Exchange initially relied upon trading companies to distribute its product. Marketing rights were subsequently divided among a group of seven trading companies which specialized in compatible food areas. This technique, while adequate for servicing existing market sectors, did little in terms of further developing or expanding those markets.

In 1967, when exports to Japan were at 5,900,000 pounds, the Exchange decided to set up its own market development office there. Within the next 4 years, almond exports to Japan doubled. It was during that period that the Exchange took another important step: an experimental program was initiated with the Foreign Agricultural Service (FAS).

The new almond program was structured differently than the FAS cooperator program which was ongoing at that time. FAS had conducted a cooperator program for a number of years to assist many commodity groups in marketing their products overseas. Most of these programs were conducted on an industry-wide basis with FAS providing a substantial portion of the funding for the total industry. When the almond program was announced in 1969, it also covered the entire industry but on a different basis. The new program was to be conducted directly with individual firms who would be marketing their branded products in foreign countries. Furthermore, industry cooperators would be contributing a larger share of the expenditures.

The Exchange worked with FAS to develop and introduce the program in Japan. Under the direction of the Exchange's market development office in Tokyo, the Export Incentive Program began to generate increased sales. Soon exports of U.S. almonds to Japan were expanding rapidly.

FAS participation allowed the Exchange to systematically develop the market in Japan for California almonds and, more specifically, Blue Diamond almonds. Initial efforts were to promote almonds for usage in bulk products such as candies and baked goods by extolling their virtues to the producers of these products through trade promotion. The next major thrust was to begin introducing almonds directly to the consumer through baking school promotion. Most every young woman in Japan will attend a cooking school before marriage. Consequently, a program was developed to promote almonds in these cooking schools and make them known to most of the housewives in Japan. More recently, an innovative program of direct consumer advertising and publicity has been developed to promote Blue Diamond snack almonds, which are being sold in a wide variety of package sizes in the Japanese market.

Blue Diamond almonds are expanding in distribution through utilization of the Coca Cola bottling companies in Japan. Agreements have been reached with each of the 17 bottling companies in Japan to distribute Blue Diamond almonds along with their Coca Cola products. This innovative marketing program has enabled Blue Diamond almonds to be distributed nationwide and this distribution has been supported by an extremely effective promotional and advertising program under the guidelines of the FAS Export Incentive Program. This program has been so successful that Japan is among the leading countries in terms of the rate of sales increase for almonds. In addition, it is now the third largest export market for California almonds, surpassed only by West Germany and the Soviet Union. It is estimated that it will again regain the number two export position. It is interesting to note that in both other countries, almonds have been known for hundreds of years, while in Japan the product was introduced as recently as the period following World War II. Usage for the most part has been developed through the promotional program fostered by the Foreign Agricultural Service.

The Japanese market which once had very few customers who were familiar with almonds now demands large quantities of the popular U.S. commodity. Continued growth of this market has brought us to a point where during the 1985 crop marketing year, more than 36 million pounds of almonds will be shipped into Japan. With this tremendous success in Japan, we have begun looking to other markets which may offer similar potential.

KOREA

The immediate logical choice is Korea. In this country we face many of the same constraints that were faced upon entering the Japanese market. There is low consumer awareness of almond products, and industrial use of almonds as a bulk commodity is extremely limited. As recently as four years ago, almonds were actually prohibited entry into the country. During the past four years, almonds were only allowed entry under a quota system. Beginning July 1 of last year, the quota system was removed and almonds were importable under open general licenses. However, there still remains a 50 percent duty which, together with other import charges, adds an estimated 65 percent to the value of the product. Intensive promotional efforts will assist in overcoming this obstacle.

The Exchange has been allocated promotional monies for the Korean market to develop a Blue Diamond branded snack market, again in conjunction with the Coca Cola distribution system in that country. We anticipate growth of the Korean market to be similar to that of Japan, where consumption of almonds went from zero to a four year consumption level of over a million pounds. In Korea we are actually anticipating a more rapid growth rate as the promotion program gets underway.

There is a tremendous need to educate the Korean people on the use and properties of the almond, and this can be accomplished through the cooperative program with the Foreign Agricultural Service. Again, these monies are made available on a matching basis so t[illegible] he industry must put up at least an equal amount of funds for [illegible] project.

WESTERN EUROPE

Another area of potential being developed through EIP is that of the consumer market in Western Europe. Historically, almond usage in Europe has been for bakery products including marzipan. These traditional uses have made the almond very popular. However, usage as a snack product has been limited.

The Exchange and FAS are now developing programs in Western Europe aimed at increasing the use of roasted consumer packs of Blue Diamond almonds. These packs have a high value-added content and are subject to larger duties than whole almonds. To develop this market, it is necessary to spend money in promotion, sampling and advertising. It is expected that substantial new consumption can be created in this area through a joint promotion program with FAS over the next several years.

TRADE BARRIERS

It is important to note that in the Japanese market almonds have very little difficulty upon entry. There is a four percent duty for our shelled almonds, which is down from approximately 12 percent when we first began working this market. In other areas of the world, we are not quite so fortunate. Korea is a case in point. Initially, almond imports into that country were prohibited and then eventually a quota was allowed. During the prohibition and low quota periods, it made little sense to expend promotional funds to be utilized in this country.

Once the quota began to expand, we began discussions with the Foreign Agricultural Service aimed at setting up a viable export promotional program. It was recognized that the first hurdle to overcome would be an elimination of the quota to allow larger quantities of supplies to enter the market if development was to occur.

The breakthrough of open general licenses was reached on July 1, 1985. At that time the Foreign Agricultural Service began funding a joint program with industry to develop the almond trade in Korea. This development is made more necessary by the 50 percent duty. It should be recognized that high duties such as this can be partially overcome by joint promotional programs with the Foreign Agricultural Service, but both the Service and the industry must recognize that the primary objectives must be to eliminate these very high trade barriers. It is extremely difficult to make up in promotion for the damaging effects felt by excessive tariffs or other import controls.

One of the reasons for the tremendous success of Foreign Agricultural Service programs is this combined responsibility of supporting promotional programs and working to eliminate barriers to entry for U.S. agricultural products. It is essential that the U.S. Government through the Foreign Agricultural Service and USTR continue its effort to reduce foreign trade barriers in order to provide important export opportunities for industries such as almonds.

CONCLUSION

Without the FAS Export Incentive Program, the California almond industry would have a much different profile. Development of almond orchards to the point of their being the number one tree crop in California would not have been possible. Approximately 10 percent of the total market for almonds has been developed through this innovative program. Anyone familiar with agriculture knows the importance of 10 percent addition to demand. Even with the help of EIP, the industry has had some difficult years recently. This occurred largely due to the strong U.S. dollar having an adverse effect in export markets. Now with the improved dollar exchange and innovative promotional programs in Korea, Japan, and Western Europe, the industry looks to a substantial improvement in the future.

STATEMENT OF RICHARD BUCHANAN, CHAIRMAN, BOARD OF GOVERNORS, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. Chairman, my name is Richard Buchanan and I would like to thank you for giving me the opportunity to appear before your committee today. I come here in three roles. First, I am president of the Buchanan Lumber Company in Montgomery, Alabama. We are manufacturers, marketers, and exporters of hardwood lumber. I am also chairman of the Forest Products Advisory Committee of the National Commission on Agricultural Trade and Export Policy, and finally, I am chairman of the National Forest Products Association's Board of Governors. Today, I will concentrate my testimony on NFPA's involvement in the Foreign Agriculture Service's overseas market development/cooperator program and what it means to the wood products industry.

NFPA is a trade association which represents over 2,000 companies and organizations engaged in the manufacturing and marketing of a wide variety of wood products throughout the country. NFPA also is coordinating and administering the FAS market development program for the entire industry, including the hardwood, softwood and plywood programs.

NFPA joined the FAS cooperator program in 1979--at a time of increased wood production and exports. The U.S. industry, being the largest producer of softwood plywood and the second largest producer of softwood lumber, was looking for ways that would stimulate U.S. exports through a concentrated overseas promotion effort. After exploring several Government programs, it found exactly what it was seeking in the FAS activities. NFPA and the industry chose this program mainly because it is tailored to an industry's needs rather than making the industry conform to prepackaged programs.

In fiscal 1980, FAS and NFPA joined forces with only two other industry associations in a $125,000 program targeting mainly Europe. Today, the industry and Government are spending over $5 million annually on overseas wood products promotion and 13 of our wood products associations are now involved.

During this period from 1979 to 1986, wood products exports reached a peak of $3.7 billion in 1980 and then declined to between $3 to $2.7 billion in the first part of the eighties.

Actually, the decline is slight if we consider that total U.S. exports have plummeted due to a high U.S. dollar and a world wide recession. Hopefully, with the dollar declining, we will see some improvements in our export performance. With a lower-valued dollar and current industry efforts, we estimate that we can more than double our exports in the 1990's--from the current $2.7 billion to about $7 billion.

We believe the FAS program is perhaps the most important factor that prevented a sharp decrease in wood exports in the first part of the eighties. This program has helped concentrate the industry's export promotion drive and has provided our very diverse industry with an opportunity to plan ahead for the next several years. As an example, last year several of our hardwood industry associations decided to form the hardwood export trade council under the auspices of FAS to coordinate more effectively the promotion of their products in Europe and Asia. Most importantly, however, the FAS forest products staff in Washington, D.C., and the agricultural attaches overseas are a vital link to key market information which more effectively guides our export development efforts.

Although we have been promoting wood products overseas for several years now, our industry's market development effort is far from being completed. Actually, our efforts in some countries have just begun. We have just begun to develop the large markets of the Pacific Rim and Latin America.

An example of this, China is a long-term marketing project which will take 15 to 20 years to develop. With FAS assistance we have a market study underway to determine the potential that exists for U.S. softwood products. In addition, we are currently assessing the need for our products in the Indian market. Another great opportunity exists in Latin America for housing, using softwood building products. We have started to develop this market by constructing wood demonstration houses and providing assistance and information of 2x4 construction.

Even in the markets of the developed countries which have bought U.S. wood products for quite some time, basic demand continues to expand consistent with their economic growth and housing requirements. In Britain, where most homes are built of masonry and concrete, North American development efforts have helped increase the use of timber frame construction from 5 percent of the market to over 25 percent in 10 years. Currently, the industry with the help of FAS is combatting adverse publicity in England about this type of construction.

Also in Europe, where furniture manufacturing is big business, exports of U.S. hardwood for that application have increased by more than 50 percent in the last 5 years. Actually, in the first quarter of 1986, due to the lower value of the U.S. dollar, hardwood exports to the most major european markets have increased substantially. In the U.K. they actually double compared to the first quarter of 1985.

FAS support has been especially successful in the trade talks with Japan--the so-called market oriented, sector specific (MOSS) talks. With the assistance of FAS's forest products division and the outstanding leadership of Undersecretary Dan Amstutz, the forest products industry was able to break through the high Japanese tariff walls on value-added products after 20 years of unsuccessful attempts. The Japanese, at the beginning of this year--after a year of hard bargaining--conceded to some important tariff cuts which the industry estimates may result in a $150 to $200 million annual increase in exports to Japan.

In addition, the Japanese agreed to lower some of their nontariff barriers and also help increase demand for wood products in Japan. As part of this latter agreement, the U.S. industry built a three-story multipurpose demonstration house in Japan using the latest U.S. wood technology and products. This structure will serve as a central point to promote all U.S. wood products, hardwoods as well as softwoods, in Japan. Again, without the excellent assistance of the FAS forest products staff and Dan Amstutz we would have not been able to accomplish so much in such a short time.

We have not been as successful in eliminating the EC tariff and quota on softwood plywood. Currently, the EC allows only 678,000 SF of plywood to enter duty-free annually; anything above that quota face a 10 percent tariff. The American Plywood Association has tried again and again to convince the European countries that they should expand their duty-free quota since demand in these countries far exceeds their supply, for instance in several countries the duty-free quota is exhausted in early spring or by mid-year. However, so far the EC has refused to expand the quota because of France's opposition to any changes. France's resistance really serves to protect its own emerging plywood industry.

APA has therefore decided to continue concentrating its efforts on expanding the European market for softwood plywood hoping that this increased demand will force the EC to relent. Also, APA will ask our trade negotiators to bring up the issue at the time of the new multilateral trade round.

Last but not least, but probably fresh in everybody's mind here, is the U.S. wood products industry's problems with Canada. Since Canada is not included in our FAS/industry program, I will not address this issue at this point but I am perfectly happy to submit a written statement to answer the questions you may have on this issue.

In this time of increased trade tensions, our industry is getting ready for a new trade round under the GATT. On top of our industry's agenda is the elimination of duties on value-added products. Most of our processed products still face stiff tariffs throughout the world while U.S. tariffs have been substantially reduced. In addition, we would like to see a strengthening of the GATT subsidies code making subsidies on natural resources illegal under international trade law.

As an agricultural product as well as a renewable resource, we in the United States have an abundance of high quality timber. We feel that with proper management and assistance from FAS, we not only will be able to greatly increase our exports but also help with our balance of trade.

Mr. Chairman, this concludes my statement and I'm ready to answer any questions you may have.

STATEMENT OF FRANCIS B. GWIN, MEMBER, NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY

It is a pleasure to appear before you today in behalf of the National Commission on Agricultural Trade and Export Policy, a body established by Congress to assist you in the development of appropriate policy matters of agricultural trade.

Congress' current attention to the subject of trade is both timely and important. No single factor promises to shape our Nation's agricultural future as much as does the issue of trade. There is--and will continue to be--a direct and fundamental relationship between the viability of our Nation's agricultural industry and our ability to effectively compete in world markets. The absence of more substantial progress toward the goal of expanding U.S. agricultural export yields us a choice between two equally fearful outcomes: continued, massive budgetary outlays to support agriculture; or a scaled-down U.S. agricultural industry, by process of attrition or by mandatory or considerable reduction in agricultural production. The consequences of failure of attention to import-damaged industries are equally serious. These are the stark and uncompromising realities we face today. Our response to these conditions will depend in no small part on the decisions Congress may make this year.

COMMITMENT TO TRADE

The orientation of the Commission is both "pro-market" and pro-trade". This is not to say that there are no risks in linking agriculture's future profitability to the achievement of progress in world trade. Other trading nations face policy choices no less onerous than our own. We live in a highly competitive world. These Nations consistently pursue the high ground, placing their own interests above those of the international trading system. By contrast, U.S. policy has been more circumspect. Our reluctance to wage an aggressive campaign to reassert our world agricultural leadership has given significant advantage to our major competitors. It is time to redress this balance. The United States must reassert and manifest its commitment to leadership in world agricultural affairs. Only in this way will it be possible to achieve the benefits that may accrue from expanded trade, and avoid the crises that will necessarily ensue in the absence of strong U.S. performance in world markets.

1985 FARM ACT

The Commission salutes Congress' attention to these matters in the trade provisions of the 1985 farm act. It urges you and Congress to ensure the full use of all resources and programs you have created to enhance competitiveness and to combat unfair export competition and foreign trade barriers.

Export credit and enhancement programs contained in the 1985 farm act should be mandated and funded at levels not less than those specified in the act. Unfair export practices of other countries should be directly countered, using (a) direct credit (GSM-5), (b) intermediate credit (GSM-102), (c) blended credit, (d) interest buy-down, and (e) export payment-in-kind (GSM-5000).

The Commodity Credit Corporation Export Credit Revolving Fund should be funded.

Assistance under these export credit and enhancement programs should be provided to all commodities and products that face competition by subsidized foreign exports, with priority consideration given to those commodities and products facing stiffest unfair competition. Consideration should also be given to the use of section 32 funds for purposes of export enhancement as originally intended by Congress.

But actions are needed beyond even the substantial progress which the 1985 farm act represents.

The Importance of Agricultural Trade to the Nation

U.S. agricultural exports and trade are vital factors in the well-being of our Nation's economic system. Employment for one-fifth of our Nation's work force is linked to our ability to maximize opportunities arising in the domestic and world market for basic agricultural commodities and value-added products.

U.S. agriculture has suffered serious and substantial setbacks in recent years, in large part the consequence of declining exports sales. In addition, our domestic industries--both agricultural manufacturing--face an ever-deepening crisis that results from new competitive pressures, many of which find their source in unfair import practices.

A variety of factors has contributed to the recent decline in U.S. agricultural competitiveness. Only some of these factors, such as fluctuations in exchange rate values and levels of worldwide economic growth, can be said to arise even remotely from a free play of world economic forces. More often, the outcome of competition in world markets results from the direct actions of government.

U.S. domestic policies, both agricultural and nonagricultural, have had an important inhibitory impact on our Nation's competitive position. Unfair trade practices of other nations similarly lessen our opportunities in our own market and in markets overseas.

Reform of domestic policies must take place in a political milieu. Such policies are the subject of conflicting agendas and loyalties, and of jurisdictional privilege. Change is always very difficult to achieve.

The same is true for reform of international practices and policies. In an increasingly competitive environment, efforts to overturn the unfair trade practices of other sovereign nations become greatly more difficult.

In neither case is there room for resignation. The stakes are simply too high.

America's survival as a world leader in international trade is in question. It is time for our Nation to hold the line. Every action that can be taken must be taken to eliminate the unfair trade practices of other countries which undercut our position in world trade. In addition, we must take the steps that are necessary to ensure that the policies of our own government do not directly or indirectly result in a decline in our competitiveness. Our response to the problems which currently affect U.S.

agriculture must mirror the economic importance to the nation of maintaining the strongest possible position in world markets.

These are critical times for American agriculture. Agriculture stands at a crossroads of opportunity or crisis.

There are practical solutions to even some of the most intractable problems facing U.S. agriculture in world trade. As a first step, we should resolve ourselves to achieve the goal of recapturing the total world market share of U.S. agricultural exports, by commodity, achieved during the last period of major recent growth of such exports.

Getting at other solutions will demand equally strong and united commitments on the part of the nation's agricultural industry -- a commitment to competitiveness, a commitment to a healthy agriculture, and a commitment to our nation's leadership in world agricultural trade. Government and industry must forge a common purpose in charting our nation's trade future. Together, with the tools in hand as recommended by the Commission, that future can be one of substantial promise.

Commission Deliberations

In preparing its final recommendations, the Commission has been guided by two basic principles: (1) wariness of actions that would result in additional federal budgetary expenditures; and (2) willingness to consider any and all policy options that hold promise of improving trade circumstances affecting agriculture. The Commission has, throughout its deliberations, operated as a Committee of the whole. It has conscientiously striven to find consensus positions uniting the diverse elements of the nation's agricultural industry, as they are broadly represented by the members of the Commission.

The Commission has actively sought the participation of all people, organizations, and companies with the direct interests in matters of agricultural trade. It has met throughout the country, and in all regions of the country, to assure a balance of regional interests in matters of trade. It has consistently honored its original commitment to bipartisanship in matters of a political nature. Consequently, the recommendations which follow should enjoy the overwhelming support of the entire agricultural industry of the Nation.

Summary Recommendations

The Commission summarily recommends that in the design and conduct of agricultural trade and export policy, the U.S. Government be guided by the need to meet the following objectives, which are of equal importance and are here listed without regard to order of priority.

1. Aggressive action to meet and counteract the effects of unfair foreign trade practices;
2. Use of all existing tools to expand markets for U.S. agricultural commodities and products;
3. Improved management of U.S. international and domestic economic policies which affect agricultural trade interests;
4. Additional emphasis on value-added trade;
5. Reorientation of food aid and economic assistance to serve long-term development objectives, with substantial reliance on policies designed to promote private sector and free market oriented growth in developing countries;
6. Targeting of market growth potential in Third World countries;

7. Lessening of foreign policy constraints to economic growth through trade;
8. Appropriate attention to the maintenance of policies that safeguard U.S. agricultural competitiveness;
9. Strengthening of agricultural interests and a streamlining of decision-making in the agricultural trade policy process, to provide a more equitable and expeditious response to agricultural trade needs.

The Commission further recommends that the agricultural industry of the United States continue to seek consensus in matters of trade policy, to ensure the proper evolution of pro-export and pro-trade government policies in domestic and international matters.

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WE MUST AGGRESSIVELY MEET AND COUNTERACT THE EFFECTS OF UNFAIR FOREIGN TRADE PRACTICES

American agriculture is currently under unprecedented assault by foreign governments employing aggressive and unfair trade practices. The U.S. Government must take a far stronger position on matters of trade. Retaliatory capabilities of the United States government should be enhanced, and all effective means employed to counter the disruptive effect of foreign export subsidies, non-tariff and tariff trade barriers and unfair import competition. Management of currently authorized export enhancement and import protection programs should be improved to safeguard U.S. jobs and enhance long term U.S. opportunities in world markets.

Progress toward the goal of fair world trade has been substantially eroded in recent years as a consequence of worldwide escalation of unfair trade practices. In many instances, and for most commodities and products, there is an absence of free markets in world agriculture. Policies of government, rather than market forces, increasingly dictate the terms and conditions under which competition takes place. Trade barriers beget trade barriers. Unfair import competition begets protectionism. There are always many more losers than winners in a trade war.

Avoidance of trade disputes requires that international rules governing agricultural trade be updated and clarified. Established procedures for policing violations of such rules need strengthening and streamlining. International cooperation is urgently required to:

- stem the tide of protectionist sentiment at home and abroad;
- open markets for basic and value-added agricultural commodities and products;
- limit import restrictions, including arbitrary and capricious quality and health regulations that represent non-tariff trade barriers;
- limit the use of export subsidies and other predatory export trade practices; and
- improve GATT processes and procedures to provide for stricter discipline and enforceability.

The Commission recommends:

1. Automatic retaliation under Section 301 of the Trade Act of 1974 in the event of unsatisfactory settlement of cases subject to petition under Section 301.
2. Full utilization of all resources and programs of the Federal Government designed to combat unfair export competition and foreign trade barriers.
3. The President be authorized to enter into a new round of bilateral and multilateral negotiations to improve conditions affecting U.S. agricultural trade.
4. GATT be substantially reformed to provide for a clarification of GATT rules, expeditious response to violations of such rules, and stricter enforceability of GATT findings.
5. The United States retain appropriate safeguards and retaliatory capabilities to enable it to aggressively pursue trade reform and protect domestic industries damaged by unfair import competition.

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WE MUST USE ALL EXISTING TOOLS TO EXPAND COMMERCIAL MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND PRODUCTS

Greater attention should be given to the need to maintain or expand the budgetary resources of the Federal Government which serve export credit and other programs designed to enhance U.S. competitiveness in world markets. Management of such programs should allow for non-discriminatory treatment of traditional markets for U.S. agricultural commodities and products. Additionality should be achieved through substantial reliance on long-term market development strategies. Resources for export and market development-related programs of the U.S. Department of Agriculture, including the Foreign Agricultural Service (FAS) overseas market development program should be maintained at levels that provide for expanded activity by USDA in matters of trade.

The Commission recommends:

1. Export credit and enhancement programs contained in the 1985 Farm Act be funded at levels not less than those specified in the Act.
2. Management of such programs be improved to allow for a longer-term orientation, with appropriate attention given to the need to service traditional customers of U.S. agricultural commodities and products.
3. Programs of the U.S. Department of Agriculture (USDA), including the Foreign Agricultural Service (FAS) and the overseas market development program of the FAS, be funded at levels not less than those authorized and appropriated for such purposes in Fiscal Year 1986, or at a level consistent with the enhanced role of the Department of Agriculture, as recommended in other parts of this report.
4. New authority be granted to the Secretary of Agriculture to carry out additional responsibilities in respect to market development.

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THE MANAGEMENT OF U.S. INTERNATIONAL AND DOMESTIC ECONOMIC POLICY SHOUlD BE IMPROVED TO BETTER SERVE AGRICULTURAL TRADE INTERESTS

Fiscal and monetary policies of the Federal Government should reflect a higher priority on achievement of national economic benefits through expanded trade. Past policies and practices resulted in an unprecedented appreciation in the value of the dollar, which, on a continuing basis, threatens to seriously undercut U.S. agricultural competitiveness. In the future, such policies should be crafted with due consideration of their impact on the domestic and international environment in which trade must take place.

Fiscal policy should continue to reflect the need to reduce the federal deficit. Domestic and international monetary policy should give greater emphasis to the need to stabilize exchange rates and establish a value for the U.S. dollar that assures efficient U.S. industries the ability to compete in international markets. Tax policy should be designed with an eye to maintaining a favorable economic climate for investment in technologies and enterprises that enhance U.S. competitiveness.

Improved overall synchronization of such policies is required to ensure a consistent and orderly international trade environment.

The Commission recommends:

1. Efforts continue to reduce the size of the Federal deficit.
2. Policies continue to emphasize stabilization of wide fluctuation of exchange rates and establishment of a wide value of the U.S. dollar that complements U.S. competitiveness.
3. Tax incentives be provided to stimulate additional investment in research and basic infrastructure that enhances U.S. competitiveness.
4. Additional efforts be undertaken to coordinate fiscal, monetary, and tax policies to provide a favorable economic climate for international trade.

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ADDITIONAL EMPHASIS SHOULD BE GIVEN TO EXPORTS OF HIGH-VALUE AGRICULTURAL PRODUCTS

The rate of growth of value-added exports is currently fast outstripping the rate of growth of raw commodity exports, as a percentage of total worldwide agricultural trade. Many nations, in both the industrial and developing worlds, have been quick to recognize the tremendous economic benefit to their societies of expanded levels of value-added and high-value product exports. U.S. exports of these products accounted for roughly one-third of total U.S. agricultural exports in recent years. By contrast, the percentage of value-added and high-value exports in total agricultural exports comprised 74 percent of French exports, 40 percent of Australian exports, and 51 percent of Brazilian exports in the same period.

The list of value-added products traded by our leading agricultural competitors--meat, dairy products, cereal preparations, refined sugar, canned fruits, vegetable oils and oilseed preparations, to name a few--reads like a catalogue of issues of outstanding dispute between these countries and the United States. In most cases, the value-added product exports of these nations benefit from some form of direct government assistance. As a consequence, the European Community is now the world's leader in value-added agricultural exports, with exports of such products becoming steadily more important in countries such as Brazil, Australia, Canada, and Argentina.

It is clear that the United States needs to do much more to promote the export of value-added and high-value products.

The Commission recommends:

1. Congress declare it to be the policy of the United States to expand exports of agricultural value-added and high-value products toward the goal of achieving parity between such exports and raw commodity exports, with an assurance that the highest level possible of raw commodity exports be obtained.
2. Greater use be made of currently authorized export promotion programs of the Federal Government to expand exports of value-added and high-value agricultural products.
3. A new commodity division be established within the Foreign Agricultural Service (FAS) or other agency, as elsewhere recommended in this report, to support value-added products not now covered by cooperator agreements and that a cooperator organization be created to assist the marketing role of the division.

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FOOD AID AND OTHER U.S. FOREIGN ECONOMIC ASSISTANCE PROGRAMS SHOULD BE RE-ORIENTED TO SERVE LONG-TERM MARKET DEVELOPMENT OBJECTIVES

Food aid and foreign economic assistance programs of the U.S. government have a potential to better serve the objective of long-term market development for U.S. agricultural commodities and products. In recent years, however, this potential has been undercut by the conflicting priorities of the different Federal agencies empowered to plan and administer food aid and foreign economic assistance programs and budgets.

Market development applications of these programs should have much greater emphasis in foreign economic policy. The food aid component of total U.S. economic assistance should be substantially increased, in keeping with our Nation's preeminent position as the world's agricultural leader. Greater leadership in agriculturally-related foreign economic assistance should be given to the Secretary of Agriculture to ensure such programs imaginatively and effectively serve the long-term objective of foreign market development.

Stronger safeguards are necessary to ensure that foreign economic assistance programs of other agencies of the Government do not directly counter the nation's agricultural trade interest, through development of competing foreign agricultural trade capabilities in like products. Approval of foreign agricultural research and technical assistance projects currently undertaken by colleges, universities, and other organizations within the United States and abroad which are financed using Federal funds should be assigned to the Secretary of Agriculture.

The Commission recommends:

1. Explicit requirements be put into effect to ensure that food aid and foreign economic assistance programs serve U.S. agricultural market development interests.
2. A "Food First" policy substantially reliant on food aid in lieu of cash-basis assistance be promulgated as the focus of U.S. economic assistance to the poorest nations of the world.
3. The Secretary of Agriculture be assigned a greater leadership role in food and foreign agricultural economic assistance matters.
4. Full use be given to all food aid programs currently authorized by law.
5. Safeguards be put in place to ensure the U.S. foreign agricultural economic assistance programs do not run counter to U.S. agricultural trade interests.
6. Foreign agricultural research and technical economic assistance projects undertaken by colleges, universities, and other organizations in the United States and abroad, which are financed using Federal funds, be made subject to approval by the Secretary of Agriculture.

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THIRD WORLD COUNTRIES SHOULD BE TARGETED WITH A COMPREHENSIVE AND COORDINATED PROGRAM DESIGNED TO PROMOTE THE GROWTH OF DEVELOPING COUNTRY MARKETS FOR U.S. AGRICULTURAL COMMODITIES AND VALUE-ADDED PRODUCTS

U.S. agricultural export promotion strategy should be more effectively targeted to achieve growth in markets in developing countries. Three-quarters of the world's population live in such countries. Ninety percent of world population growth will occur in these countries in the next 14 years. These markets offer tremendous opportunity for U.S. agriculture, provided that existing, often unmet, demand can be translated into effective demand for agricultural commodities, products and services which the United States produces.

Congress recognized this important factor in the world trading environment in the 1985 farm act, and created within the Executive Office of the President the position of Special Assistant for Agricultural Trade and Food Aid Development. The provision establishing the Special Assistant to the President calls upon the executive branch to identify at least 15 growth markets for U.S. agricultural commodities and products, and requires the Special Assistant to coordinate the programs and actions of various agencies to promote development of such markets. The Commission endorses the broad fundamentals of strategy underlying this provision of the 1985 farm act. Preliminary investigations by the Commission indicate a wide variety of developing nations which may be suitable for such targeting.

The Commission recommends:

1. The Secretary of Agriculture be required to coordinate, together with the Special Assistant to the President for Agricultural Trade and Food Aid Development, a pilot program of targeted Third World country "growth market" development

relying on a wide variety of currently existing Federal programs dedicated to economic and agricultural development and market expansion.

2. The President appoint without delay a forceful agricultural representative to serve him as Special Assistant to the President.
3. The Congress and the President establish it to be policy of the United States to make better use of existing resources to aggressively and imaginatively develop new markets for U.S. agricultural commodities in Third World countries.

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GREATER CONSIDERATION SHOULD BE GIVEN TO THE NEEDS OF U.S. AGRICULTURE IN THE DESIGN AND EXECUTION OF UNITED STATES FOREIGN POLICY

Foreign policy objective of the Federal Government often run counter to progress towards expanding trade in agricultural commodities and products. Firm safeguards are needed to ensure that U.S. foreign policy serves, and does not detract from, the achievement of national economic benefits through trade.

Foreign policy embargoes applied to U.S. agricultural exports have undermined the United States' reputation as a reliable supplier of food and fiber. Foreign policy considerations have interfered with efforts to establish a more equitable international trading environment for U.S. agricultural commodities and products.

The Commission recommends:

1. The Federal Government guarantee, except in time of national emergency, an absolute freedom from embargoes on U.S. agricultural exports to any nation, and an assurance of sanctity of contract in respect to export sales suspended under extraordinary circumstances.
2. Consideration be given to proposals designed to lift trade embargoes in respect to cash-basis sales of U.S. agricultural commodities and products, as have been recommended by certain representatives of the United States agricultural community.
3. Consideration be given to a normalization of nonstrategic bilateral agricultural trade relations with nonmarket economy countries.
4. Congress and the Administration resist pressure to subjugate legitimate trade interests of the United States to facilitate or enhance U.S. foreign policy interests, or those of other nations.

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APPROPRIATE ATTENTION MUST BE GIVEN TO THE MAINTENANCE OF DOMESTIC POLICIES WHICH SAFEGUARD OR ENHANCE U.S. COMPETITIVENESS IN WORLD MARKETS

Efforts to expand U.S. agricultural exports and maintain the competitiveness of U.S. agricultural commodities and products in domestic and international markets have suffered in recent years as a consequence of policies and practices of the Federal Government that directly and indirectly interfere with such efforts. Many such policies and practices result from an unevenness of fit between conflicting agendas of Federal agencies, as has been addressed elsewhere in this report. In other instances, such policies and practices appear designed to inhibit competitiveness, and thus directly contradict the clear intent of Congress and the Executive in regard to the need for expansion of U.S. economic benefit through trade.

United States domestic agricultural price support and related programs should be designed with the following objectives in mind:

1. Commitment to a long-term policy with sufficient flexibility to allow for adjustments to changing world economic conditions, but which provides for a reasonably stable and predictable atmosphere for planning purposes;
2. Commitment to policies and programs which will allow U.S. agricultural commodities and products to be competitively priced in overseas markets;
3. Commitment to provide the opportunity of profitability to U.S. agricultural producers in order to maintain the competitveness of the U.S. farm and food system;
4. Commitment to preserve and protect our natural resources;
5. Commitment to continue strong support for agricultural research and education

Greater care must be taken to ensure that questions regarding the quality of U.S. agricultural exports are fully addressed by industry and government, with full assurance that such exports meet the tightest criteria position consistent with the need to maintain quality in a competitive international trading environment.

Cargo preference laws relating to the shipment of government-directed sales of agricultural commodities and products should be subject to further review by Congress and the Administration. Such policy, if extended to include programs designed to enhance U.S. competitiveness, expands Federal expense, with additional costs borne by the nation in terms of lost export sales. New solutions need to be found to address the problems of the U.S. maritime industry. The industry itself will not prosper if the net effect of such policies results in a decline in agricultural competitiveness.

The Commission recommends:

1. Congress and the administration maintain the direction of policy in regard to domestic agricultural policy contained in the 1985 farm act, to the extent that such policy serves the long-term goal of U.S. competitiveness in domestic and world markets;
2. Congress and the administration reassert the importance of long-term domestic policy that is pro-export and pro-trade;
3. Industry resolve itself to lay to rest, once and for all, questions of quality involving U.S. exports of agricultural commodities and products, in advance of congressional action;
4. Congress and the administration reopen for review current cargo preference laws affecting U.S. agriculture, consistent with the objective to provide assistance to the U.S. maritime industry through means which do not involve exaction upon U.S. agriculture

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CURRENT UNITED STATES AGRICULTURAL TRADE POLICY PROCESS SHOULD BE IMPROVED TO ALLOW FOR A STRENGTHENING OF AGRICULTURAL INTERESTS, CENTRALIZATION OF DECISION-MAKING, AND MORE EXPEDITIOUS RESPONSE TO AGRICULTURAL TRADE NEEDS

The agricultural trade policy process is ineffectual, cumbersome, and slow. Quite often, the interests of agriculture are outweighed in the inter-agency and inter-committee process currently designated to coordinate the formulation and execution of national trade policy.

Agricultural interests need strengthened representation in the trade policy process. A greater leadership role should be provided to the U.S. Department of Agriculture in matters of agricultural trade and greater attention given to the designation within government of effective agricultural trade spokesmen.

Long-term agricultural trade policy objectives need to be developed, articulated, and made binding on the inter-agency process affecting agricultural trade.

The Commission recommends:

1. A greater leadership role be given to the U.S. Department of Agriculture in matters of agricultural trade.
2. Greater attention be given to the designation within government of effective agricultural trade spokesmen.
3. Management improvements be undertaken within USDA to enhance its leadership role in trade matters.
4. Long term agricultural trade policy objectives be developed and made binding on the inter-agency and inter-committee process affecting agricultural trade.

CONCLUSION

The recommendations which I have presented receive more detailed treatment in the Executive Summary of the Commission's Final Recommendations to the President and Congress, from which my testimony to you today is largely drawn. Please feel free to request copies of that document, if it is not already in your possession.

The Commission is very proud of its final product. It is, we believe, a program of effective competition, which can begin the process of restoring our Nation's trade leadership in agriculture. It represents the work of hundreds of people and organizations from all around the country, all of whom have a stake in securing a more prosperous trade future for U.S. agriculture.

U.S. agriculture has gone through substantial adjustment in the past two decades. The 1970's were years of enormous opportunity. Floodgates of demand opened worldwide, fueling export-led growth in America's food and fiber industries. The early years of this decade have seen a reversal in the trends evident only a decade ago. Competition has taken front seat to opportunity. Progress is hard won. Conditions in the United States and the world economy have changed. Our response to these changes will dictate our ability--and resolve--to maintain our Nation's agricultural trade leadership.

These are the new realities of agricultural trade.

Our world is economically and politically interdependent. Our decisions alone cannot dictate our future. Forces abound that are separate from--but not always immune from--our Nation's ability to control.

We place importance on our maintenance of a viable farm and food sector--we should expect no less of our competitors. Persistent government intervention in agriculture and trade is a fact with which we must always contend.

Opportunities that exist in the world market for the United States exist for all Nations willing to compete with us. Growing global demand for food and fiber underwrites expanded world production of agricultural products. The benefits of this expansion will not accrue solely to the United States. We are entering an era of worldwide agricultural expansion.

United States economic dominance is at an end. The products of other leading trading nations displace our own on world markets. Competition is the order of the day.

These are the factors which we face. They are the benchmarks of our future opportunity. Recognizing them is an important first step. Beyond that, there is action. New realities call upon us to develop a new agenda of worldwide effective competition in agricultural trade and a new era of responsiveness to the vital economic needs of the Nation.

We call upon this committee to receive the recommendations of the Commission in this spirit, and encourage you to work with us, as we, like you, labor to improve the conditions facing agriculture in the markets of the world.

Thank you.

STATEMENT OF MICHAEL J. STUART, SENIOR VICE PRESIDENT, WESTERN GROWERS ASSOCIATION

The Foreign Market Development Cooperator Program is a unique partnership of government and industry that, in its 30 year history, has resulted in the development of markets in some 130 countries around the world. The Federal funds utilized in this program generate about twice that amount in spending for market development by private industry and third party cooperators.

The support for this program is wide-spread. In its report to the President and Congress, the National Commission on Agricultural Trade and Export Policy said that the FAS overseas market development should be protected from budget reductions contained in the President's budget for Fiscal Year 1987.

And, in the Food Security Act of 1985, Congress said, "It is the sense of Congress that the cooperator market development program of the Foreign Agricultural Service should be continued to help develop new markets and expand and maintain existing markets for United States agricultural commodities..."

The success of this unique program have been well-documented. Government spending in this area shows a benefit to cost ratio of some 80 to 1. Nowhere in government is there a program that generates additional spending of private sector funds the way this one does.

A 50 percent reduction in the funding of this program will have disastrous results. It will mean an abrupt curtailment of market development activities as well as forced reductions in representation and staffing in foreign markets. For some cooperators with lower levels of funding, it could mean an end to their foreign market development activities altogether.

Agriculture in the United States is currently enduring one of the most difficult periods in its history. News reports abound concerning today's farm crisis. Much of agriculture's problem has been attributed to drastically declining export sales since 1981.

In 1984, the National Commission on Agricultural Trade and Export Policy was formed to review the situation and make recommendations on how the crisis could be turned around. In its recently released report, the Commission stated, in part:

- "United States agriculture has suffered serious and substantial setbacks in recent years, in large part the consequence of declining export sales."
- "America's survival as a world leader in international trade is in question. It is time for our nation to hold the line."
- "These are critical times for American agriculture. Agriculture stands at the crossroads of opportunity or crisis."
- "Government and industry must forge a common purpose in charting our nation's trade future."

The Commission recognizes that at no time in our past has the need for strengthening agriculture been more important. Western Growers Association believes that at no time in our past has the need for a partnership of government and industry for agricultural foreign market development been more important.

Yet today, in the face of these challenges to agriculture's future, our ability to conduct foreign market development programs designed to increase both the volume and value of our farm exports is in serious jeopardy because of a proposed 50 percent reduction in the U.S. Department of Agriculture's Foreign Market Development Cooperator Program.

Western Growers Association recognizes the need to reduce Federal spending to help ease our Federal budget deficit. However, reducing funding of a program that encourages private sector spending in an area that increases agricultural trade, and therefore improves our national balance of payments situation, is not good business.

Agriculture is at a crucial moment in the development and maintenance of foreign markets. We have potential to regain some of what we've lost in the past five years. Now is the time to increase our efforts, not reduce them.

STATEMENT OF THE WINE INSTITUTE AND THE WINEGROWERS OF CALIFORNIA

As a result of the passage of the 1984 Wine Equity and Export Expansion Act, the Wine Institute joined the FAS Cooperator program in 1985. The wine industry receives no domestic subsidies and is frequently faced with foreign competition in third countries that is government subsidized, both domestically and for export. Such a disadvantage is impossible to overcome without U.S. government assistance.

The Wine Institute is a trade association representing more than 500 wineries and the Winegrowers of California represents hundreds of wineries and wine-grapegrowers. As primarily medium- and small-sized businesses, the members of these associations have little resources available for foreign export promotion. The ability of these businesses to leverage their limited funds through industry generic promotion in select markets, using matching U.S. funds and expertise, have proven highly successful.

The attached report describes the Cooperator program in the four selected markets as well as the combined FAS/wine industry efforts in other markets.

While the greatest success has occurred in Japan, where the most effort has been made, it should be pointed out that, even though overall shipments of wine to the U.K. have not increased, the Cooperator program has been quite successful in bringing a greater number of U.S. winemakers into the export market, thereby providing a much greater selection to the British consumer. Only one U.S. producer had previously been providing more than 70 percent of the U.S. exports to the U.K. Through some realignments, including bottling of bulk in the U.K., that producer's shipments are off. The Cooperator program has positioned the U.S. industry to make significant increases in shipments to the U.K. over the next two years.

In conclusion, the FAS Cooperator program has provided the vehicle for this small sector of the Agriculture industry to join together to expand export markets for U.S. wines. Funding should continue at current levels to ensure growth in these value-added exports and a corresponding improvement in the U.S. balance of trade.

STATEMENT OF ROBERT C. GROSS, PRESIDENT
CALIFORNIA PISTACHIO COMMISSION

I am Robert C. Gross, President of the California Pistachio Commission, a State of California commission organized for the purpose of market development and research of California pistachios. The U.S. pistachio industry is only ten years old; yet, we have grown from no commercial production in 1975 to providing enough pistachios to meet our nation's demand and have a surplus to export. In the near future we will have sufficient production to be competitive in the world market. It is important to note that U.S. pistachios have practically no tariffs ($.01/kg.) and no quotas. Yet in the last two years the California pistachio growers have been subjected to the harshest unfair trade practices from Iran. Imports of Iranian pistachios have increased over 400% in the last two years. Iranian pistachios have been mislabeled to the consumer as California pistachios and export agents overseas are deliberately transshipping Iranian pistachios to purposely confuse the country of origin.

As I mentioned, the U.S. pistachio industry is relatively young. Pistachio trees were first planted in California in the 1880's, but pistachios did not become a significant commercial crop for nearly 100 years thereafter. Then, in the late 1960's and early 1970's thousands of acres in California were planted with pistachio trees. Since it takes from seven to ten years from the time of planting for the trees to produce a significant crop, commercial quantities of U.S. grown pistachios were not marketed until 1976, when the crop exceeded one million pounds. Subsequently, as older trees became more productive and younger trees began producing, the U.S. crop expanded rapidly, exceeding 17.2 million pounds in 1979. By 1984, an "on-year" in the alternating two-year cycle, the domestic crop exceeded 63 million pounds.

U.S. pistachio growers can be grouped roughly into three sectors: a) owner/farmers that manage their own groves; b) grove owners that employ agricultural management companies to manage their groves; and c) integrated grower/processors, including cooperatives. The pistachio industry is concentrated almost entirely in California, where 49,519 acres (31,850 acres bearing and 17,669 acres non-bearing) of trees have been planted. In crop-year 1984-85, California accounted for over 99% of the unprocessed pistachio production in the U.S. There are approximately 500 pistachio growers in the United States, most of them small.

The California Pistachio Commission and industry participants filed a countervailing duty (CVD) and antidumping action against Iran on September 26, 1985. On December 30, 1985 the International Trade Administration set a preliminary CVD of 56.86 percent ad valorem, and on March 11, 1986, a final CVD was determined to be 99.52 percent ad valorem for raw pistachios.

Also effective on March 11, 1986 was a preliminary antidumping duty of 192.54 percent ad valorem determined for raw pistachios for a cumulative duty of 235 percent ad valorem. Subsequent to these events, roasted pistachios were included in the preliminary antidumping determination and the antidumping duty was increased to 241 percent for a cumulative duty of 283.80 percent ad valorem. Prior to the above events, the duty for raw pistachios was $.01/kg and for roasted pistachios was $.022/kg.

The results of the unfair trade actions demonstrated outrageous trade violations that may eventually end in the United States, but the pistachio industry will continue to experience the same trade abuses in international markets. Consequently the California industry must use all resources available. We have a distinct advantage: quality. The Iranians have not advanced to the stage of our industry and we can offer a clean product to our foreign customers. In addition to quality, we can also use assistance under the USDA Market Development Cooperator program.

The California Pistachio Commission only recently entered the USDA Market Development Cooperator Program and the results were very encouraging. We used $30,000 from the Cooperator Program to enter the Singapore market. In the first year we experienced a 500 percent increase in sales (from 10 to 55 metric tons) and more important the following year our Singapore representatives used their own funds to continue to advertise.

Mr. Chairman, I request that the Cooperator Program not be reduced and recommend that the Congressional Appropriations Committees should restore funding to the fiscal year 1986 level.

STATEMENT OF E. SCOTT HORSFALL, DIRECTOR, FOREIGN MARKET DEVELOPMENT, CALIFORNIA TABLE GRAPE COMMISSION

Over the last decade, exports of fresh California Table Grapes have more than doubled--from the 16,000 metric tons shipped in 1976 to the 38,000 tons shipped in 1985.

Not coincidentally, this increase in exports has coincided with the California Table Grape Commission's participation in the Foreign Agricultural Service's Cooperator program. As do many other FAS Cooperators, the Table Grape Commission has used Federal funds along with Commission funds to conduct promotional activities in several countries around the world.

In Hong Kong, a television advertising campaign has helped boost U.S. grape imports by 227% in the last decade. In Singapore, exports are up 182%. Panama's imports are up 246%, Japan's 286%.

Countries that were small importers in 1976 are now steady, growing customers. Malaysia, for example, imported 94 tons of grapes in 1976. In 1985, Malaysia imported over 1,500 metric tons. Taiwan's imports grew from 188 tons in 1976 to over 3,600 in 1985.

Obviously, factors other than promotion have contributed to the increase in grape exports. Taiwan's tariff reductions, for example, and Malaysia's growing reliance on direct import (as opposed to transshipments from Singapore) have certainly contributed to the impressive growth of exports to those two countries. And the reduction in strength of the U.S. dollar in 1985 help boost the table grape industry to a record season of exports.

Still, the role of promotion is evident. The increase of shipments to Japan has come despite high tariffs and the strong dollar. Shipments to Hong Kong, Singapore, and Panama have risen steadily regardless of other market influences. The case of Panama is particularly telling. Since promotional activities were begun five seasons ago, exports have risen to a new record every year, regardless of influences such as crop size, dollar strength, and average price.

These increases came at a time when exports are of increasing importance to the grape industry in California. With crop size growing faster than demand in domestic markets, growers must turn more to exports for relief and profits.

And the potential for export expansion is as good or better now than anytime in recent seasons. With the dollar down, with grape growers more export-minded, and with crop size and quality improving, the export grape market looks brighter than ever.

The weak dollar is, of course, a two-edged sword. While making grapes a more reasonable buy for importers, it makes the cost of promotion rise accordingly.

This is the reason that the FAS Cooperator Program is of such importance to the table grape industry right now. A cutback in funding now would force the Grape Commission to make a significant retrenchment--one that would send the wrong message to our trading partners overseas about our commitment to their markets. As a small organization with limited funding available, we don't have the option of simply replacing lost Federal funds with additional Table Grape Commission funds. Lost funding would be simply that--lost funding, and would require a corresponding reduction in promotional activity.

We have endeavored, in our relationships with overseas importers, to emphasize the industry's long-term commitment to exports. This commitment has been demonstrated primarily through the promotional programs carried out through the FAS Cooperator program. An abrupt reduction in Federal funding now could seriously jeopardize future export potential for U.S. table grapes, and we urge the Committee to fairly consider the effect that the proposed reductions might have on exports.

STATEMENT OF CALIFORNIA CLING PEACH ADVISORY BOARD BEFORE THE SENATE AGRICULTURE SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY REGARDING THE FOREIGN AGRICULTURAL SERVICE COOPERATOR PROGRAMS

This statement is being submitted for the written record on behalf of the California Cling Peach Advisory Board in connection with the hearing before the Senate Agriculture Subcommittee on Foreign Agricultural Policy regarding the Foreign Agricultural Service (FAS) Cooperator Programs.

The California Cling Peach Advisory Board is a body organized under California state law to represent all California producers and marketers of cling peaches. Cling peaches are a variety of peaches used in the production of canned peaches, canned fruit cocktail and other processed peach products. The work of the Board includes advertising, market promotion, quality control and research in connection with the sale of cling peaches, both domestically and abroad.

The Board has long participated in the FAS Cooperator Program and believes that a maintenance of the Program is essential to the survival of the canned fruit industry. In recent years, as illegal EEC trading practices have closed U.S. canned fruit suppliers out of the Community and displaced U.S. sales in third countries, such as Japan, the Cooperator Program has been the only means of slowing the industry's massive loss of market share brought on by those practices. Without the Cooperator funds, the industry might well have lost its export markets altogether. This fiscal year, as a result of increased Cooperator monies granted pursuant to Section 1124 of the Farm Act, the California industry, for the first time in many years, has begun to see a significant reversal of downward market trends in targeted markets, underscoring that more Cooperator funds, not less, will make a difference abroad.

A description of both the Board's historical participation in the Cooperator Program and the trade obstacles that it has sought to overcome will help dramatize the vitally important contributions made by the Cooperator Program to the California cling peach industry's export marketing endeavors.

Prior to the 1980's, the industry's FAS Cooperator funds were targeted principally to Western Europe, then a leading export outlet for California canned fruit. By the 1980's, however, the EEC's newly created program of subsidization for its canned fruit sector had become so massive in scope that the U.S. industry, despite concerted promotional efforts, was artificially priced out of the European market. U.S. exports of canned peaches to the EEC dropped from more than 500,000 cases in 1980/81 to 7,400 cases in 1984/85. In fruit cocktail exports, the industry watched its exports to the EEC drop from 452,000 cases in 1980/81 to 16,000 cases in 1984/85. The industry's displacement in the EEC market translated into an annual loss to U.S. canned fruit producers of $19 million.

Although a Section 301 case was brought to seek relief from the EEC practices, relief was slow in coming. It was not until 1984 that a GATT panel confirmed that U.S. rights had been violated by the European subsidy program. Because of EEC reluctance to recognize this ruling, a practical settlement to the dispute was not achieved until 1985. Even with the accord, a full dismantling of the offending practices will not be accomplished until 1987.

Throughout this long relief process, EEC producers have been given the time needed to expand production, moving beyond self-sufficiency into a position of significant oversupply. This surplus, in turn, has foreclosed any possibility of U.S. reentry into the EEC market.

Recognizing the futility of competing with EEC coffers, the U.S. industry determined in the early 1980's that FAS funds would be better applied to markets where promotional efforts would still make a difference. Accordingly, the industry's trade offices in Europe were closed and attention was redirected to the Far and Middle East, where market potential was considered to be high for both cling peaches and fruit cocktail. The shift in FAS Program funds away from Europe and into the East is detailed in the attached chart.

Without question, these new markets could not have been developed without the use of FAS market development funds. Japan is particularly illustrative. Until the early 1980's, Japan's canned fruit market was dominated by the indigenous white peach. Few, if any, yellow peach sales had ever reached the Japanese consumer. With the help of market development funds, the U.S. industry introduced clings into the Japanese school lunch program, where the product was received with great interest. Students who enjoyed the product encouraged their families to begin purchasing cling peaches, and consumer awareness spread. Japanese importers continue even today to remark on the powers of the school lunch program to promote consumer interest in the U.S. product. Through these and related promotional means, the U.S. industry by 1983 had captured more than 50 percent of the canned fruit market in Japan.

Japan and other markets that the United States had sought with success to develop soon caught the interest of EEC producers, who, because of artificially induced surpluses of canned fruit, were eagerly looking for third country outlets. With the continued help of illegal subsidies, the EEC member-state producing countries launched an aggressive promotional campaign of their own in the Far East and, more significantly, were able to price their product in Japan and other markets at between $3.00 to $4.00 a case lower than the U.S. price.

The consequences of these new EEC sales efforts were predictable. Subsidized Greek peaches began appearing in volume in the Far Eastern markets, swiftly displacing U.S. products. In the first nine months of 1985, Greek peaches captured 23 percent of the Japanese market, up from zero before 1984. The U.S. share dropped to only 14 percent, down from 50 percent in 1983. A similar situation began to develop in Taiwan, the second largest U.S. market after Japan in the Pacific Rim.

Despite this staggering displacement of U.S. sales in the Far East, one point is clear: the loss of U.S. market share would have been more complete and irreversible had it not been for the continued application of market development funds. Cooperator promotional efforts provided sufficient inducement for some longstanding importers to stay with the California product. Similarly, as a result of planned marketing programs tailored to the Japanese supermarkets, certain chains continued to give California producers shelf space. Market development funds also were responsible for promoting the sale of a limited number of sliced peaches, which the Japanese had formerly considered to represent imperfect fruit. These successes in an otherwise declining market were critically important in 1984 and 1985, as they enabled the U.S. industry to retain at least some presence in the Far East, however small.

The passage of the 1985 Farm Act gave renewed hope to the California industry. Section 1124 of the Act mandated that $110 million be used in export assistance beginning in fiscal year 1986 through 1990 to counter the adverse effects of foreign subsidies. Because such assistance was authorized on a priority basis for products that had received a favorable decision under Section 301, the U.S. canned fruit industry was awarded $2.5 million to promote sales in Japan and Taiwan.

Most of the monies awarded are to be used in Japan for TV advertising and aggressive in-store merchandising. These monies, together with grower-financed freight allowances and canner-financed promotional programs, have already succeeded beyond all expectations in reversing the United States' declining market posture in Japan. The Board estimates that by the end of July, 400,000 or more cases of cling peaches and fruit cocktail will be sold in Japan, which more than doubles last year's U.S. market share.

The increased market development money should also help make significant inroads in the sale of California frozen peaches, a relatively new product that is sent to Japan in raw form for reprocessing. While last year's sales to Japan of frozen cling peaches came to only 300 tons, it is expected that this year's shipment will exceed 700 tons. The long-term potential of this product is virtually unlimited, as long as promotional efforts are sustained.

In short, although EEC subsidies have thwarted all efforts to regain lost sales in Western Europe, stepped up Cooperator efforts in Japan and other Eastern markets have provided new optimism that the U.S. industry's lost sales in targeted third markets can be recaptured. Underlying this optimism, however, is the expectation that market development funds will continue as needed and will not be targeted for budgetary reductions. Inasmuch as the adverse effects of EEC canned fruit policies are expected to continue -- at least until the Community's subsidized surplus can be corrected -- a roll-back in Cooperator funds will only reverse our significant market development strides projected for this fiscal year and cause the industry to reenter its downward export spiral. As this would be economically fatal to the California industry, the Subcommittee is asked to take all necessary steps to preserve, if not enhance, current FAS Cooperator funding.

FAS PROJECT FUNDS

October 1 - September 30
($000)

	1981/82	1982/83	1983/84	1984/85	1985/86
Scandinavia	80	80	25	--	--
West Germany	50	50	15	--	--
Switzerland	25	25	6	--	--
Belgium	25	25	4.5	--	--
Netherlands	25	25	4.5	--	--
Far East (seven countries excluding Japan)	80	80	--	--	--
Japan	240	225	297	400	425
Hong Kong	--	--	20	20	22
Taiwan	--	--	34	45	48
Malaysia	--	--	3	10	12
Singapore	--	--	22	44	48
Philippines	--	--	4	--	--
Korea	--	--	4	--	--
Saudi Arabia	--	--	10	30	40
Lebanon	--	--	10	--	--
	$525	$510	$459	$555	$595

STATEMENT OF THE CALIFORNIA RAISIN ADVISORY BOARD BEFORE THE SENATE AGRICULTURE SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY REGARDING THE USDA FOREIGN AGRICULTURAL SERVICE COOPERATOR PROGRAM

Mr. Chairman, members of the Senate Agriculture Subcommittee on Foreign Agricultural Policy, we welcome the opportunity to submit testimony on the U.S. Department of Agriculture Foreign Agricultural Service (FAS) Market Development Cooperator Programs.

The California Raisin Advisory Board represents all domestic producers of raisins. Over the past several years, the raisin industry has worked closely with the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service to expand exports to overseas markets. The USDA matches cooperator funds to develop marketing programs that promote the consumption of U.S. agricultural products in foreign countries. Currently the California Raisin Advisory Board (the "Board") is one of 52 cooperator organizations working with the USDA. The longstanding partnership that has developed between the Board and the USDA/FAS brings benefits to both our government and to the raisin industry. USDA is able to reach its goals of increasing export opportunities for U.S. agricultural products and the raisin industry is able to increase its overseas market share without relying on government subsidies to reach that goal.

The domestic raisin industry has had a substantial number of export success stories directly attributable to the activities of the FAS in cooperation with our industry. For instance, raisin exports to Japan have increased by over 32% over the last two years to a record high of nearly 30,000 tons per year. Despite the excessive unfair trade barriers imposed by the European Community, raisin sales have increased to eight European countries by over 40% since 1984, bringing sales to over 30,000 tons per year.

Due to Cooperator Program activities, key markets in the United Kingdom and West Germany have doubled since 1983. The raisin industry has just begun to implement a promising market development plan in Taiwan and Korea, representing a potential of 10,000 tons of exports. Not only has the raisin industry expanded markets that already exist, the industry has been able to explore new areas in the Middle East, China, Malaysia, Philippines, and in Central and South America.

Further, the raisin industry has developed new ways to expand the use of its product by industrial users, such as food manufacturing companies operating on a multinational basis. By supplying high level food technology expertise to these multinational manufacturers, we develop new and different markets for raisins.

Finally, and most importantly, total raisin exports will reach a record 80,000 tons in 1985/86 (an increase of 22,000 tons from 1982/83) which represents a value to growers and packers of over $26 million.

Cooperator funds have enabled the California Raisin Advisory Board to offset unfair trading practices by the European community, increase already existing overseas market opportunities, and develop entirely new export markets for our products.

Without the assistance of the Foreign Agricultural Service, the raisin industry would have considerable difficulty competing in overseas markets, especially in markets where the domestic product is highly subsidized by its own government.

The California raisin industry has tremendous expectations for the Targeted Export Assistance (TEA) Program, as outlined in the 1985 Farm Bill, based on our overwhelmingly successful past experiences with the FAS Cooperator Programs. Implementation of the TEA program is vital to the expansion of markets for U.S. agricultural products.

Our industry would like to thank the Chairman and other members of the Subcommittee, as well as California's Senator Pete Wilson, for having the foresight to include the Targeted Export Assistance program in the 1985 Farm Bill. If raisin producers are expected to continue competing in overseas markets, programs such as the TEA are necessary in order to ensure success. This Subcommittee's support for Cooperator Programs, as well as the full Committee's support, must continue to ensure the long-term viability and positive results of this vital program.

In closing, the California Raisin Advisory Board strongly supports the continuation of the highly successful FAS Cooperator Programs. Increasing overseas market access is an important goal of the Congress and the Executive Branch and an important stabilizing factor for the agricultural community. Your continued support for this important program will be greatly appreciated.

STATEMENT OF SUN-DIAMOND GROWERS OF CALIFORNIA BEFORE THE SENATE AGRICULTURE SUBCOMMITTEE ON FOREIGN AGRICULTURAL POLICY REGARDING THE FOREIGN AGRICULTURAL SERVICE COOPERATOR PROGRAMS

Mr. Chairman, members of the Subcommittee, we are grateful for the opportunity to discuss the Foreign Agricultural Service (FAS) Cooperator Programs.

Sun-Diamond Growers of California represents over 5,000 growers, producing walnuts, raisins, and prunes. As a member of the California Raisin Advisory Board, Sun-Diamond has had a longstanding involvement in the Foreign Agricultural Service Cooperator Program. In that program, we have increased raisin exports to Japan by 32% and to eight European countries by over forty percent. These joint industry/government marketing efforts are, in part, responsible for our recent increases in exports in the face of E.C. subsidies as well as the high value of the dollar. Consequently, we are extremely supportive of the Cooperator Program and the positive results it has achieved to date.

Under the 1985 Farm Bill Targeted Export Assistance (TEA) Program, Sun-Diamond is actively cooperating with the Foreign Agricultural Service on walnut, raisin and prune industry export promotion programs.

TEA funds are designed to counter or offset the adverse effect of the unfair trade practices of our foreign trading partners on the export of United States agricultural commodities. In particular, the Secretary of Agriculture has the ability to provide export assistance on a priority basis to those commodities that have been the subject of a 301 trade complaint or have suffered retaliatory actions in connection with a 301 trade dispute. Both the raisin and walnut industries have received this special priority assistance. In addition, a market development program for prune exports has also been approved.

We intend to use the TEA funds to increase already existing markets, as well as to develop entirely new markets for our products.

The raisin market development program should result in a substantial increase in export sales of U.S. raisins to Western Europe and to the Pacific Rim countries of South Korea and Taiwan. The raisin industry estimates that, over a five year period, export gains will approximate $20 million to $25 million per year.

The prune industry has targeted Scandinavia, Italy, Spain and Germany for intensive marketing programs during the next five years. By 1988/89 the industry expects to achieve a +43% increase in sales over current levels to these countries. This increase is valued at $21 million.

Targeting West Germany, Italy, Spain, the Netherlands and Japan, the walnut industry promotion program is estimated to yield an increase in sales of $36 million by 1988/89, or an annual gain of $12 million. Approximately 55% of this gain is projected in the Western European nations and 45% in Japan.

Sun-Diamond strongly believes that longterm promotional planning plays a very important role in achieving and maintaining a strong and consistent demand for U.S. agricultural commodities overseas. Our member growers have seen tremendous results in many of the Western European and Pacific Rim nations from working with the FAS. We expect similar results from the newly authorized TEA Programs.

While this is only the first year of operation for the 1985 Farm Bill TEA Program, our industries intend to show their strong commitment to the program and to the targeted foreign markets by establishing export promotion plans that will extend over the full five years of the 1985 Farm Bill. We intend to demonstrate the effectiveness and success of the TEA Program to the Congress and to the U.S. Department of Agriculture each year. This process ensures that the industries and government planners maintain the best possible use of Cooperator Program funds.

It is clear to Sun-Diamond Growers of California that the health and well-being of our raisin, walnut, and prune industries are highly dependent on the success of our export promotion programs. The support of Senate Agriculture Committee members has been instrumental in both the creation and the expansion of the FAS Cooperator Programs. We would like to give special thanks to this Committee and, in particular, to California's Senator Pete Wilson, for having the foresight to create the Targeted Export Assistance Program, thereby providing assistance to our industries in overcoming the unfair trading practices of our competitor nations. We urge the members to continue to recognize and strongly support this government/industry trade program and its role in offsetting unfair foreign trade practices that harm our domestic agricultural producers. Thank you.

JULY 22, 1986 HEARING

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, I am pleased to be here this morning as the Subcommittee on Foreign Agricultural Policy continues its hearings on trade.

This morning's hearing, which will address the problem of market access and trade barriers around the world, is significant. In May, for the first time in 27 years, U.S. agricultural imports exceeded agricultural exports by $348.7 million. We must take action. We cannot stand by and watch our export markets go to our competitors. It is my hope that our witnesses will present their ideas and suggestions about ways in which the Senate could work toward removing the trade barriers to our agricultural products.

I am especially pleased to present to the Committee Vernon McMinimy, the Director of Commodities for the A.E. Staley Corporation, which is based in my home State of Illinois. I am sure that my colleagues will benefit from his counsel.

Thank you, Mr. Chairman.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, I commend you for conducting this valuable series of hearings on agricultural export issues. I especially appreci~~ate this~~ opportunity to address an issue of paramount concern to Kentucky farmers--the barriers that these farmers have found to selling their products abroad.

Tobacco is Kentucky's leading cash crop, with a direct and indirect value to Kentucky's economy exceeding $11 billion. As with any agricultural commodity, and especially with tobacco, the only ~~real~~ opportunity for growth lies in our ability to export the raw and finished product. Some countries have erected such huge barriers to tobacco and tobacco product imports that my farmers are effectively shut out of some potentially very lucrative markets. I'd like to take a few minutes of the Committee's time to discuss some of the most egrious trade practices of our trading allies.

Until just yesterday, it was illegal for a South Korean citizen to possess a foreign-made cigarette. This possession law was strictly enforced and in 1984, some 600 Koreans were arrested for possessing American cigarettes. As you can well imagine, Mr. Chairman, Kentucky veterans who fought beside South Koreans during the Korean conflict have a difficult time understanding the fairness of this law. This practice amounts to the most blatent protectionism one could imagine, which is why I felt it necessary to introduce legislation to address the issue. And it's not only tobacco products which are affected Mr. Chairman. Exporters of such products as beef and processed meats, citrus products, and forestry products have found that their products are effectively banned from the Korean market. And the situation was clearly getting worse.

S.Res. 369 is a sense of the Senate Resolution that I introduced 2 months ago which says, in effect, "enough is enough". Since the South Koreans receive from the U.S. Government nearly $4 billion annually in duty-free access to our markets, it seems reasonable to expect a certain level of reciprocity from them. My resolution would express the Sense of the Senate that this privilege of free market access should be discontinued until the Republic of Korea begins meaningful negotiation to address the trade inequities between our two countries. I delivered this message, on behalf of myself and 13 of our colleagues, to the South Korean government in a visit to Seoul during the Memorial Day recess.

I was encouraged by their response to this message, Mr. Chairman. In a meeting with Korean President Chun Du Hwan, I was assured that the market liberalization process for cigarettes would begin during a Special Session of the National Assembly which was convened last month. Mr. Chairman, no matter what your opinion might be regarding the export of American tobacco products, I viewed this announcement as a sign that changes in Korean trade policy were beginning.

Much to my disbelief, it appeared that President Chun's assurance was a hollow promise. The Special Session of the Korean Assembly adjourned with no action taken on any trade issue, including tobacco, and it certainly appeared to me that the Koreans had little interest in carrying through with any substantive trade concessions. In response to this inaction, I introduced my Resolution dealing with the Koreans as an amendment to the State Department authorization and withdrew it only after receiving assurances from the Majority Leader that comprehensive trade legislation would be debated later on in this session.

Yesterday morning, I was pleasantly surprised to hear from the Korean Ambassador to the United States, Kyung-Won Kim, who announced that the Korean government has repealed its cigarette possession statute. Furthermore, the government announced a liberalization movement and will begin the importation of American cigarettes in January 1987. The step taken by the Republic of Korea is a small but significant one and I sincerely believe that it signals a trend.

That trend, Mr. Chairman, is that we must play hardball with our trading partners. There are barriers to ag products in a number of countries--I could go on and on about the barriers Japan and Taiwan have constructed to keep U.S. cigarettes out--but I believe that there is a window of opportunity for earnest negotiation. The recent negotiations with the EC over the Spain-Portugal issue prove conclusively that an agricultural trade war can be avoided. I believe my on-going battle and apparent success with the Koreans also perpetuates this notion. We can regain lost market shares and find new markets. But to do that, we're going to have to use the export tools we have, including selective and legal retaliation.

I saw an international agricultural expert quoted as saying that a full-scale recovery in ag export opportunities may take 10-15 years. I'm not sure that I agree with that assertion. Trade barriers can be broken down through frank discussion and firm action. The barriers that currently preclude U.S. farmers from certain markets may actually be a blessing in disguise. We may have significant marketing opportunities in certain countries that have previously shut the door on American farm products. If we must use force to get our feet in the market door, so be it.

Thank you Mr. Chairman.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, again I want to commend you for holding these hearings to focus on agricultural trade barriers around the world. My first priority, of course, is the impact barriers, erected by foreign countries, will have on the American farmer.

Agricultural exports have been one of the few bright spots in our overall national trade balance in the last two decades. The value of farm exports increased from approximately $7 billion in 1970 to around $44 billion in 1981. These exports have created more than 800,000 domestic jobs in related industries, and have taken production from 2 out of every 5 acres of U.S. crop land. In addition, these exports have generated about 1/4 of all farm cash receipts, and have contributed nearly $30 billion to our balance of trade at their height in 1981.

Today, the United States finds itself facing a trade dilemma of drastic proportion. The overall trade deficit for 1985 was approximately $150 billion. A new trade record high trade deficit for any one year. Agriculture was one of the few industries that showed a positive trade balance and kept the overall trade balance from exceeding $150 billion.

The Commerce Department recently reported the worse news of all regarding agricultural trade. U.S. farm trade ran in the red for the first time in three decades. Our nation purchased $349 million more of agricultural products than our farmers sold. This is a stunning turnabout from the days when American farmers dominated world markets. Something is radically wrong when the greatest food producer in the world is buying more agricultural commodities than it is selling.

The lousy trade numbers mean it is highly unlikely that we will get any relief in the agricultural sector this year. In addition, it puts a dark cloud over forecasts for a national economic rebound.

The size of the deficit and the shift of farm trade into the red surprised many of the Administration's economists that have consistently argued that the high commodities support prices along with the over-valued American dollar are responsible for making U.S. farm products too expensive in foreign markets. The dollar has declined about 30 percent in the past 16 months and the 1985 farm bill, which I opposed, has reduced the support rate for wheat from $3.30 a bushel to $2.28 a bushel, but our agricultural trade situation is at its worst since the 50's.

Farm exports have decreased more than 1/3 since 1981. Our agricultural trade balance has gone from $30 billion to the current trade deficit since 1981. The Administration may believe that a deficit in agricultural trade is acceptable, but I am sure that the American farmer suffering from a neglected farm policy does not. Our farmers are operating in a situation worse than the dust-bowl. Only this time, world markets are blowing away instead of just dirt.

The Administration's farm policy and foreign policy has given more attention to debtor nations around the world than it has to our farmers that are debtors here in our own country. These policies have seriously hurt American farmers and manufacturers without doing much to resolve the debt crisis itself.

Mr. Chairman, I think we need to look closely at the trade barriers around the world. However, Mr. Chairman, it may also do some good to examine the trade barriers that our own government has imposed on the U.S. farmer in the name of foreign policy.

Thank you, Mr. Chairman.

STATEMENT OF HON. JAMES ABDNOR, A U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman, I commend you for holding this timely hearing on agricultural trade barriers. As you know, the United States continues to have the most productive agricultural sector in the world. But our striking performance record in this vital sector cannot withstand the severe pressures now being brought against it by the anticompetitive practices of some countries--which, in substantial measure, are responsible for the fact that fiscal '86 will result in a disappointing $27.5 billion in estimated agricultural export earnings. In other words, Mr. Chairman, since 1981 when the United states registered its highest export earnings of $43.8 billion, this year's projection constitutes an alarming drop of 37 percent in value terms.

Since the beginning of this decade, the American farmer has been put through an excruciating wringer of high interest rates, overvalued domestic currency, and falling land prices. But this is not all. As if we needed additional impediment, the U.S. Government has also engaged in a variety of foreign commercial actions which seriously undermine the commercial position of American farmers. Consider, for one infamous example, the tremendous losses which our farmers have been forced to absorb as a result of the 1980-81 grain embargo.

Over the past 10 years, American agricultural policies have been based on maintaining loan rates that expanded production and created price-depressing surpluses. The result? The United States has inadvertently provided its foreign competitors with a defacto price umbrella. This condition is most dramatically reflected in the behavior of European Community (EC) export subsidy practices. The end result is the replacement of U.S. goods in foreign markets with EC products. The significant drop of U.S. agricultural exports over the last five years is substantial measure reflects the success of the EC in this endeavor.

What can the United States do to reverse this ominous trend? Part of the answer, to be sure, is found in the Food and Security Act of 1985 which was designed to change the course of our government farm policy. Already the 1985 farm bill has made it more difficult for foreign countries to adjust themselves to the increasingly stiff competitive conditions at work in the global agricultural marketplace. I want to be clear on this point: the Food and Security Act does not represent a panacea for American farmers. But to the degree that it facilitates U.S. agricultural competitiveness, the act could increase U.S. export earnings. One indication that our EC adversaries are taking this act seriously is to be found in their recent move to raise the value-added tax by a significant amount in order to further subsidize the community's export war chest. It is about time that our competitors feel some pressure.

But these short-term initiatives need to be supplemented by longer term efforts designed to help this country regain its overall trade momentum. Simply put, agriculture must be seen as a sector which is at least as competitive as any of the high tech industries--and it is. Unfortunately, I have the distinct impression that Washington, up to now, has failed to appreciate this compelling need.

Finally, there is absolutely no way the United States is going to significantly increase its agricultural exports in the absence of buyers with the requisite means to pay for them--beginning with our third world customers who have been forced to take the monies they would normally use to buy U.S. agricultural goods to repay their loans. In blunt terms, this means that South Dakota farmers are having to forego significant export earnings. I'm sure that my colleagues here today share my grave concern about the occurrence of a balance of payments deficit in agricultural trade last May. That is intolerable for our world trade reputation, insulting to our farmers and harmful to the U.S. economy.

In order to advance this vital agenda, I would like to announce that the Joint Economic Committee will be publishing a major document on agricultural trade within the next few weeks and I hope that this will make an important contribution to resolving this pressing trade issue.

Once again, Mr. Chairman, I commend you for holding this important hearing. Thank you.

STATEMENT OF LEO V. MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the committee, I appreciate the opportunity to discuss barriers to U.S. agricultural trade.

The restrictive agricultural trade policies and practices of other countries are one obstacle to the expansion of U.S. agricultural exports. In most cases, those policies represent a relatively cheap way for other countries to support their own producers. Sometimes, they reflect other considerations, such as economic development or balance of payments problems. The latter are more difficult to deal with because balance of payments problems can be compelling. In either case, obstacles to trade are better removed by creating an increased demand for the product, or by negotiation, rather than by retaliatory attack where both sides would lose.

I would like to make clear that the primary emphasis of Foreign Agricultural Service programs is on market development. Negotiation to remove obstacles to trade and, if necessary, retaliation, are the primary responsibilities of the U.S. Trade Representative's office. We support and actively participate in their efforts when it is is appropriate, primarily where the adverse effect on U.S. agricultural exports is direct and significant and trade agreement rights are involved. The list accompanying this statement relates to such significant barriers.

Two Types of Trade Barriers

Trade barriers basically fall into two groups -- those that are not government policy, but rather are based on a country's economy and culture, and those that are instituted by a government as a matter of trade policy.

In this first category, which is often termed a "constraint," fall such obstacles as lack of foreign exchange, inadequate infrastructure (port, unloading or storage facilities, for example), unfamiliarity with a product, and lack of technical expertise in purchasing, processing and marketing products. The second category includes barriers both of a tariff and nontariff nature.

Constraints to U.S. Exports

Many of the barriers faced by U.S. exporters are not government-imposed or those officially recognized in the General Agreement on Tariffs and Trade (GATT) and other international trade agreements. These barriers, such as product unfamiliarity and lack of technical expertise, are every bit as damaging as government-imposed obstacles in terms of impeding exports of U.S. agricultural commodities and products.

Our programs of market development are primarily designed to remove these types of constraints to agricultural trade. Our philosophy is that if we can build demand for U.S. products, we facilitate the process of breaking down the formal, government policy barriers. Perhaps this seems a bit optimistic, but we have seen it work again and again, on products ranging from avocadoes to feedgrains to wood.

In general, these constraints are often most effectively mitigated by private rather than government entities. Unfortunately, private U.S. firms are frequently reluctant to risk investment of their resources to overcome foreign import constraints because the prospect of success is so uncertain and the benefits, if successful, are accessible to other U.S. and foreign competing firms.

It is in this arena where the nonprofit agricultural associations, which we call cooperators, who work jointly with the Foreign Agricultural Service in a matching funds, export promotion program, have been so successful. They provide technical and marketing expertise, as well as strategies that support government trade negotiations. They conduct activities abroad to develop demand for U.S. products and support for relaxation of import barriers.

The bulk of cooperator efforts focus on these constraints. Their strategies include:

--Familiarizing foreign trade and consumers with the quality, variety and use of U.S. products;

--Promoting a quality image for U.S.-identified commodities; and

--Resolving problems related to local infrastructure or importing or marketing practices.

Significant cooperator effort is devoted to improving foreign management and technology in order to increase quality, output, and production economies and -- consequently -- use of products made from U.S. commodities. Here are just a few examples.

Efforts To Remove Constraints

Four years ago, the U.S. Feed Grains Council, in cooperation with Egyptian public and private sectors, launched a buffalo fattening program. The intent was to increase U.S. feedgrains consumption by persuading local producers that existing feed and herd management techniques were inefficient and uneconomical. Today, over 100,000 head of buffalo consume about 150,000 tons of concentrate feed annually, a significant portion of which is U.S. feed grains. An additional 50,000 head are expected to be on feed by the end of 1986 and roughly a quarter of a million by 1988.

Foreign trade and consumer attitudes towards U.S. products are often a major stumbling block to U.S. exports. For example, Latin America has traditionally resisted wood housing because of a cultural preference for concrete and masonry and fears of fire and earthquake damage. The American Plywood Association coordinated an Inter-American Housing Conference that resulted in an agreement between the Association and Peru, Ecuador, and Chile to permit construction of demonstration housing units. The Peruvian units were completed last summer and those in Chile and Ecuador are in progress.

Frustrated in its efforts to increase exports of U.S. soybeans to Portugal, the American Soybean Association conducted a survey of Portuguese housewives in 1982 which identified poor-quality, locally produced soybean oil as the culprit. Enlisting the support of several leading Portuguese refiners, ASA developed industry standards to improve the quality of soybean oil and provided technical assistance to the refiners to improve their facilities and processing techniques. ASA then launched promotional activities over the next two years. As a result, soybean oil consumption increased from 19,000 tons in 1982 to 65,000 in 1986.

In 1977, when the California Avocado Commission began promoting avocados in Japan, only 5 percent of the population knew what they were. A program of trade and consumer advertising, merchandising, and work with the food service sector not only increased consumer awareness to 89 percent by 1985 but also increased sales more than sevenfold. Gains are expected to continue, with the U.S. share remaining at more than 80 percent.

In addition to these ongoing efforts of cooperators, thus far this year, we have identified 15 projects, costing nearly $60 million, to focus on specific market development projects. Through the use of these Targeted Export Assistance (TEA) funds, we are greatly expanding the positive impact of our market development activities.

In addition to the above-mentioned constraints of a technical and cultural nature, USDA is also working to remove economic constraints. The Department of Agriculture can do little to lower interest costs, which eat up developing countries' foreign exchange reserves, or influence exchange rates. But through such USDA programs as Public Law 480, the Export Credit Guarantee Program (GSM-102) and the soon to be implemented Intermediate Credit Guarantee Program, we are attempting to mitigate financial constraints to countries' imports of U.S. farm products. The programs have been successful in making U.S. farm products more easily accessible to debt-burdened countries and in turning concessional buyers into cash customers.

Given our successes in removing various technical, cultural, and financial constraints to exports, it is unfortunate that they are not the only obstacles we face in international trade. But the truth is that too often government-imposed barriers heavily impede U.S. farm product exports.

Government-Imposed Barriers

These government-imposed barriers -- both tariff and nontariff -- are severely hampering world trade. One of the difficulties in this area is defining what constitutes a barrier. The rules of trade, as interpreted from the General Agreement on Tariffs and Trade (GATT), often do not apply or are ambiguous. While there is little doubt that a 30-percent tariff on imports of U.S. wine into Japan is a barrier, the subject becomes more murky for other, nontariff barriers.

For example, when the European Community, without scientific rationale, plans to ban the use of non-therapeutic hormones in meat production, that is a barrier. But if a country will not allow imports of certain fruits because of fear of certain pests, is that a more legitimate barrier?

In general, government-imposed nontariff barriers are more restrictive than tariff barriers, although tariffs, if extremely high, can be an effective barrier.

On the whole, the importance of tariffs as barriers to trade has declined in recent years. The average U.S. duty on agricultural imports is less than 5 percent, among the lowest in the world. Even where higher duties apply, they are not the main barrier.

In contrast to tariff barriers, nontariff barriers seriously threaten world trade. Virtually all product groups face a prohibition somewhere in the world. Most countries of the world now impose some form of nontariff barriers and their use is increasing.

Barriers in this category can be divided into several groups, such as quantitative restrictions, variable levies and minimum import price systems, monopolies, preferences, and health and sanitary regulations. Export subsidies depress world prices and distort world trade flows.

Use of Barriers Is Widespread

Recently, as competition for export markets has heated up, the use of barriers has become more widespread.

The European Community protects over 90 percent of its agricultural production. Grains and livestock products, including poultry and eggs, are protected primarily by variable import levies which impose a charge on imports equal in most cases to the difference between EC market price targets and the lowest price of imports. Levies are adjusted daily for grains, less often for other products.

Horticultural products and tobacco are protected in the EC mainly by tariffs and domestic subsidies. The most important products free of all import charges and restrictions are oilseeds, oilseed meals, nongrain feed ingredients and cotton. Products protected by variable levies are sold domestically at prices well above world market levels and are exported with the help of export subsidies. Export subsidies are also significant for a number of other products.

Other European countries also rely heavily on variable levies. State agencies control grain marketing in some Scandinavian countries. Imports of fruits and vegetables that compete with domestic products are often limited to certain seasons. Import quotas are employed especially by Switzerland for some products. Unlike the European Community, production over and above domestic needs is not encouraged. Therefore, export subsidies are less of a problem.

Japan uses a variety of direct and indirect controls on imports such as quotas, state monopolies (for basic food grains), licensing or other guidance to importers, and relatively high tariffs. While Japan is willing to pay a high price to support inefficient farms, the nation must import much of its food requirements.

In Canada, quotas are used to regulate imports of beef, poultry, eggs, and dairy products. Seasonally high tariffs and minimum price provisions apply to fruits and vegetables. Protection and support is given by both the federal and provincial governments. While some Canadian farmers benefit from production subsidies, such policies are not usually a significant factor in international trade.

Australia and New Zealand also rely heavily on marketing boards. In addition, New Zealand makes wide use of import licensing. Australia and, to some extent, New Zealand effectively prohibit many imports by plant and animal health laws. Export subsidies are not significant.

Developing countries protect their producers in many ways, but especially by import licensing, direct control of imports by government agencies, and high tariffs. Shortages of foreign exchange may result in prohibition of imports deemed unessential. Export subsidies are rare, but some countries have used export tax policies to encourage exports of domestically processed products.

Trade with Communist countries is controlled through government agencies.

U.S. Efforts To Counter Barriers

We have achieved some notable results in the trade policy area in the past year. I would like to review just a few of these.

Progress has been made with the Japanese in a number of areas. As a result of our efforts, Japan agreed last year to reduce its tariffs on a number of agricultural products of interest to U.S. producers, including wine, walnuts and chicken. These tariff concessions apply to $85 million in U.S. exports.

Within the context of our Market-Oriented-Sector-Selective (MOSS) talks, Japan has agreed to unilaterally reduce its tariffs on solid wood and wood panel products in 1987. Some $200 million in U.S. exports will benefit from these concessions which cost us nothing.

One very visible demonstration of the progress we have made in the wood products area is the construction of a wood demonstration house in Tokyo, which was completed in May. The three-story building features all-wood construction, utilizes modern building systems and products, and demonstrates the savings that can be achieved in building costs, time, and energy requirements using wood.

Our trade policy work has been successful with other nations as well.

For example, as a result of trade negotiations, Taiwan and Korea reduced agricultural and forestry tariffs on a broad range of agricultural products in 1985 having an export value of $185 million. But despite this progress, we still have market access problems in both of these countries, and we are continuing to press for further liberalization with officials.

Faced with the loss of a $600-million corn and sorghum market in Spain as that country joined the European Community, the Administration insisted successfully on an arrangement announced July 2 to keep trade flowing while compensation is negotiated.

The U.S. Goal

While it is not realistic for all trade barriers to be eliminated entirely, there is a strong case for reducing the levels of protection and for doing it in a responsible, well-thought out manner. Our goal is to ensure a world trading system that flows uninterrupted for the benefit of farmers and consumers alike. To the extent possible, we want to create an environment for comparative advantage to work.

Our tactics for achieving that goal are first, to create demand for our products, giving the customer what he wants, when he wants it and how he wants it. These are the basic tenets of any good marketing plan.

Where this tactic needs additional support, we advocate negotiation. As long as two opposing factions are talking, there is hope. If we stop talking to each other, there is little chance that our goals will be achieved.

Only as a last resort do we advocate retaliatory actions. The strategy is to use this type of action only when all other efforts have failed and surely not as our first, or even second, course of action. The possibilities for nations in today's trading situation to attack and counterattack goes on ad infinitum. And where does it end? In a trade war, everyone loses.

To achieve our goal of a freer trading environment, however, does not rest with us alone. It must be done by all trading nations, not just by the United States. This is one of the topics we will be discussing in the upcoming round of the Multilateral Trade Negotiations under the GATT.

The U.S. position for these negotiations is to seek a freezing of subsidies and access barriers and having a scheduled rollback to zero. We will also seek agreement to encourage greater harmonization of animal and plant health-related regulations that impact on international trade.

We want to create a climate for global growth and opportunities for all efficient producers. This goal transcends politics--both at home and abroad.

Thank you, Mr. Chairman, that concludes my testimony.

[The following material was inserted by Leo Mayer, FAS, USDA]

PRINCIPAL BARRIERS TO U.S. AGRICULTURAL EXPORTS INVENTORY BY COUNTRY--JULY 1986

ARGENTINA

Taxes-Oilseeds: Differential taxes on oilseeds and processed oilseed products significantly augment the supply of processed products on the world market. The differential taxes also result in a wider crushing margin for the processors. Estimated impact: U.S. sales of oilseed products have been displaced. Action: The USTR initiated a Section 301 investigation to determine whether the export tax differential is unreasonable and a burden to U.S. commerce. Bilateral consultations are being scheduled.

Taxes-Hides and Skins: A differential export tax of 30.5 percent on hides and skins and 2.15 percent on leather continues to favor the export of leather versus raw hides. Estimated Impact: This restrictive export policy causes any increase in world demand to fall on the U.S. hide supply, forcing up U.S. hide prices (and the price of U.S. produced leather products). Argentina annually exports leather and leather goods to the United States valued around $150 million. Action: U.S. Government officials have raised this issue with Argentine Government officials in bilateral discussions to focus on the elimination of this distortion in trade.

AUSTRALIA

Tariffs: Australia has relatively high tariff levels for an industrialized country. Tariffs on U.S. imports have dropped from 12 percent in 1981 to 8.5 percent in 1984. Estimated impact: Minimal. Action: The USG will take note of U.S. industry concerns and also monitor the impact of Australia-New Zealand Free Trade Agreement on U.S. trade.

Tariffs-Vegetables: Australia's Industry Assistance Commission recently recommended that imports of unprocessed vegetables be dutiable at a minimum of 2 percent rate and that imports of processed vegetables be subject to a general rate of 10 percent. Estimated impact: Possibly significant on processed and frozen vegetables. Action: The USDG has made initial representation to the Government of Australia, and will continue to monitor the situation.

BRAZIL

Standards, Testing, Labeling, and Certification-Seeds: Import restrictions on certain seeds (grain sorghum, corn, soybeans, dry edible beans and garden beans) originally based on phytosanitary grounds were being maintained because of a self-sufficiency policy. Estimated impact: Drop in U.S. exports from $6.7 million in 1983 to $3.3 million and $3.8 million in 1984 and 1985 respectively. Potential market for U.S. seed exporters of $20-30 million. Action: Brazilian officials from the Ministry of Agriculture visited the United States to work with U.S. Department of Agriculture specialists to clarify certification requirements. As a result, many phytosanitary restrictions have been resolved. The situation is currently being monitored.

Export Subsidies: The Brazilian government has used direct export subsidies, tax exemptions and deductions, and preferential export financing to promote Brazilian poultry, soybean, and soybean product exports to the detriment of U.S. exporters. Currently, it does not appear that Brazil is funding the programs as extensively as in 1983 and 1982 because of its balance of payments situation. However, Brazil has not made any commitment to refrain from the use of these programs sometime in the future. Estimated impact: Brazilian exports have displaced U.S. export and the U.S. market share for these exports has declined. Brazil's policies have also contributed to current global commodity surpluses. Action: The United States has two 301 cases pending before the GATT Subsidies Code: one pertains to Brazilian poultry exports, the other involves Brazilian soybean and product exports. Consultations were last held in December 1985.

Export Tax Differential: Brazil levies lower export taxes on soybean oil and meal exports than that levied on raw bean exports. Estimated impact: The differential export tax structure provides a wider crushing margin for Brazilian soybean processors. Brazilian processors are, therefore, able to undercut world prices for soybean oil and meal. Action: Bilateral consultations were held during the last Trade Subgroup meeting in December 1985.

High Tariff Rates: Tariffs average 40 percent and raise the landed cost of imports to 200-300 percent of U.S. ex-factory costs. Tariffs are a major barrier for almonds, feed supplements, canned peaches, corn, and fruit cocktail. Action: The U.S. will continue to encourage reductions in tariffs as Brazil's balance of payments situation improves and during the new round of trade negotiations.

Quantitative restrictions - Company import quotas: Companies imports are subject to approval by Foreign Trade Department of the Bank of Brazil (CACEX) and are based on the previous year's imports. The program has been used to reduce imports since 1980. Estimated impact: This program has reduced imports by approximately 20 percent. Action: Brazil announced it would increase company quotas as part of its import liberalization measures in 1984. We will continue to press Brazil to eliminate this quantitative restriction.

Import Licensing and Other Administrative Barriers - General Licensing Restrictions: Almost all imports require licenses under complex regulations which can be used to deny application. Estimated impact: Licensing restrictions are the most important factor in declining U.S. exports to Brazil (including non-bulk agricultural commodities). Action: The U.S. will continue to encourage Brazil to provide greater transparency in the application of current regulations.

Apples and Pears-Licensing: Brazil has a tariff-rate quota of 15 percent for 10,000 metric tons of apples and pears (August-December) and a 32 percent over-quota duty. However, U.S. exporters have been unable to make use of the quota because of Brazil's nonissuance of import licenses. Estimated impact: In 1981 the United States exported $3.6 million of fresh apples and pears to Brazil. In 1985 U.S. apple and pear exports were less than $175,000. Action: While U.S. exports remain below the quota, we will continue to monitor the situation. Our concerns were expressed at bilateral Trade Subgroup meetings in December 1985.

CANADA

Tariff and Other Import Charges - Provincial Liquor Boards: Canadian provincial liquor boards discriminate against U.S. suppliers of beer, wine and spirits through mark up, distribution and listing practices. Estimated impact: The U.S. could possibly increase sales by $25 to $100 million without discriminatory practices. Actions: U.S. concerns have been raised repeatedly at senior levels with both federal and provincial Canadian officials. In October 1985 and March 1986, the U.S. held wine consultations with Canadian officials pursuant to Title IX of the Trade and Tariff Act of 1984. On both occasions, the U.S. made clear its opposition to discriminatory provincial wine practices. In the March meetings, the U.S. reiterated its position that provincial wine practices should, at a minimum, be brought into line with the letter and spirit of Canada's obligations under the 1979 MTN by April 1, 1986. We also pressed for a firm Canadian commitment to discuss provincial liquor board practices in the ongoing bilateral trade negotiations.

Fast-Track Surtax System for Fruits and Vegetables: The system provides temporary emergency protection from imports for Canadian growers of certain specified horticultural products. Most of the affected products would be U.S.-produced. Estimated impact: The system has been used only once when a surtax on yellow onions was imposed in 1982. It cost U.S. producers $412,000. The U.S. does not have a similar system and U.S. growers view it as a lack of competitive equity. Action: The U.S. has tried to convince Canada to eliminate the system, arguing that it is neither GATT compatible nor consistent with Article XIX Safeguards. Canada has been advised that we will formally challenge the surtax in the GATT if it is implemented without evidence of increased imports.

Canadian Tariff Rates: Canada's tariff rates are still among the highest of all industrialized nations. As a result of the Tokyo Round, Canadian tariffs will be reduced by an average of 40 percent by 1987. Canada will maintain tariff rates of over 10 percent for processed foods and alcoholic beverages, among other items. Estimated impact: High Canadian tariff rates, coupled with shipping and insurance rates, create a barrier to U.S. goods. If Canadian tariffs were reduced to the average level of industrial nations, it is believed U.S. could increase trade by more than $500 million. Action: The United States is reviewing U.S. and Canadian tariff structures for the ongoing bilateral free trade negotiations.

Quantitative Restrictions-Beef: The U.S. quota on Canadian imports of beef was set at 21.6 million pounds under Canada's beef import law for 1985, out of a total Canadian import quota of 146.6 million pounds. Estimated impact: Without the quota, U.S. exports would be 65 million pounds, worth between $25-$100 million. Action: As a result of bilateral consultations, Canada has agreed to exempt high-quality beef from the quota (which comprises 85 percent of U.S. beef exports to Canada). U.S. exports should not be affected in 1986.

Quantitative Restrictions-Other Agricultural Products: Import quotas are imposed on turkeys, chickens, table eggs, and certain dairy products as part of a supply management system under the national marketing boards. Estimated impact: Quotas prevent increases in U.S. market shares. The potential increase for U.S. trade could be possibly in the $100-500 million range. Action: The U.S. has proposed modifying the table egg quota to benefit U.S. exporters and will formally protest Canadian intentions to form an additional marketing board for hatching eggs and tobacco. Canada plans to modify the issuance of import licenses. We will follow this action closely and protest any change that will adversely affect U.S. exports.

Standards, Testing, Labeling, and Certification-Hogs: There is a 30-day quarantine on live hogs from U.S. to prevent introducing pseudorabies. Estimated impact: The quarantine requirement made U.S. exports of hogs to Canada uneconomical. The impact on U.S. trade is $10-$25 million. Action: Canadian and U.S. officials are exploring alternative procedures for exporting U.S. slaughter hogs that would still provide adequate protection against potential pseudorabies introduction.

Standards, Testing, Labeling, and Certification-Plywood: U.S. D-grade veneers are not recognized by Canadian Standards Association (CSA) plywood standards. CSA standards cover only woods indigenous to Canada and exclude major U.S. plywood species. The U.S. recently adopted performance standards on 40 percent of all U.S. structural panel products (plywood, oriented strand board and waterboard). Canada has not developed performance standards for structural panel products. Estimated impact: Harmonized standards would increase U.S. plywood sales to Canada by between $25-$100 million. A common North American performance standard could increase two-way trade in structural panel products. Action: Tariff reductions negotiated on softwood plywood during the MTN were contingent upon development of a common North American prescriptive standard by January 1983. Canada's non-recognition of D-grade plywood veneers has deadlocked tariff reductions. U.S. is urging adoption of common North American standards as part of ongoing bilateral talks on softwood lumber trade.

Non-tariff Barriers-Fruit and Vegetables: Canadian regulations bar import of fresh fruits, vegetables or honey of kinds grown in Canada, with certain limited exceptions, unless these imports are bought by the importer within 24 hours after shipment from production point. Bulk imports of produce are permitted only with a formal request for a "waiver" of Canadian agricultural packaging rules issued by Minister of Agriculture. Estimated impact: These rules offer Canada's horticultural industry import protection not afforded the U.S. industry, whose impact is estimated to be in the $25-$100 million range. Action: In March 1986, the U.S. International Trade Commission released its fact-finding Section 332 investigation into the competitive position in U.S. markets of certain vegetables produced in the U.S., Great Lakes states and in Canada.

Non-tariff Barriers-Canadian Wheat Licensing Boards: Board controls all exports and imports of wheat, barley and oats. Import licenses issued only upon documentation that a comparable product is unavailable in Canada. Estimated impact: As domestic wheat prices in Canada continue to increase, and U.S. wheat prices decline, U.S. products will become even more competitive, thus impact of licensing boards is between $25-$300 million. Action:

Former Secretary of Agriculture Block raised this issue in early 1986 with Canadian Minister. Issue is still unresolved.

Export Subsidies-Grain: In January 1984, the Western Grain Transportation act implemented several major changes in the Crows Next Pass Freight Subsidy Program for moving western grains to points of export. Of major concern to the U.S. was the designation of the U.S. as an eligible export market and an increase in the number of products eligible for the subsidy. Estimated impact: The freight subsidy gives Canadian exporters of grains and feeds a significant advantage in U.S. and third country markets. Canada is undercutting U.S. prices for alfalfa pellets in Japan. Rapeseed oil and meal exports also benefit from the subsidy. Estimated impact is between $25-$300 million. Action: As a result of bilateral consultations, Canadian officials agreed to limit transportation subsidies on millfeed to 16,000 metric tons during the year starting August 1985. The USG has requested that this VRA be extended for another year. Canada recently completed a mandatory review of the WGTA legislation which included U.S. concerns., Although the Report recommends that grains moving into the U.S. no longer be eligible for subsidized freight rates, it also recommends paying the transport subsidy directly to the producers. Since it has not been decided if the recommendations will be adopted, the impact on exports is not clear.

COLUMBIA

Tariff and Other Import Charges: In September 1985, import duties were increased on about 300 agricultural items. At the end of 1985, tariffs on imported capital goods were reduced by about 8 percent. Tariffs on raw material inputs, such as seeds and pesticides, have also been reduced. Estimated impact: U.S. agricultural exports to Columbia increased by $4 million as of the end of 1985. Action: Tariffs will remain a topic of the next round of bilateral discussions to be held during the fall.

Import Licensing: Licensing restrictions on industrial and agricultural products (i.e. apples, prunes, wines) have substantially increased since 1982, and constitute a significant trade barrier. Restructuring of the system is underway and in Spring 1986, 39 percent of total imports did not require licenses. Minimum payment and term requirements have been abolished. Estimated impact: Import licensing for apples revised in late 1985, putting apples on free import list. No changes for prunes and wine. Action: Licensing problem will be discussed during upcoming trade consultations as well as balance of payments consultations.

THE EUROPEAN COMMUNITY

Tariffs and Other Import Charges-Tariffs on Forest Products--Kraft Paper: The EC delayed lowering rates negotiated in the MTN (9% to 6%) on kraft paper pending conversison to the Harmonized System (HS) and without further concessions. Estimated impact: About $40-$50 million is classified in the higher duty category. Action: It will be raised during HS discussions.

Softwood plywood: The MTN concession is 10 percent in 1987, with a duty free quota for the first 600,000 cubic meters. The industry is seeking an expansion of the duty free quota or a reduced tariff to compete with duty free EFTA imports. Estimated impact: U.S. exports of $70 million could triple. Action: The EC will not expand the quota without concessions. There is some pressure from member consuming states to do so.

Prepared Almonds: EC tariff rates of 14-16 percent are impeding exports and promotional efforts. Estimated impact: If tariff rates were substantially reduced or eliminated, the industry believes that prepared almond exports could increase by up to $30 million. Action: U.S. and industry have undertaken promotional effort to develop EC's processed almond market.

Variable Levies: VLs are the basic form of agricultural protection and apply to grains, sugar, dairy products, beef, poultry, eggs, pork and processed products made from these commodities. Estimated impact: VLs affected $2.2 billion in U.S. exports in 1983, mainly corn and wheat. Elimination of the grain VLs, and corresponding changes in price and subsidy policies, would increase U.S. exports by $2 billion annually (ERS study). Action: The U.S. is seeking to liberalize market access in the GATT Committee on Trade in Agriculture and in upcoming MTN.

Tariff Preferences for Citrus: Preferences from several Mediterranean Basin countries are 25 to 80 percent of MFN rates. Estimated impact: Exporters estimate a market, without preferences, of 3 million cartons annually or a five fold increase. Action: Section 301 action and dispute settlement in the GATT. The U.S. retailiated on pasta for EC action to block GATT Panel report recommending the EC consider limiting its preferences. The EC counter-retaliated in November 1985 by tripling tariffs on U.S. - walnuts and lemons. Dispute remains unresolved.

Standards, Testing, Labeling, Certification-Oak Wilt: The EC's phytosanitary regulations on oak log and lumber imports to prevent the introduction of oak wilt fungus require certification of origin, fumigation and debarking and drying procedures. Estimated impact: The hardwood log and lumber market is price competitive and the oak wilt requirements increase U.S. prices. U.S. exports affected were $150 million in 1984, down 28 percent from 1980 when the regulations were implemented. Action: Bilateral discussions have been taking place since 1979 and the EC has been urged to accept kiln dried oak lumber and bark. In December 1985 the EC Commission adopted provisions allowing exemptions, for the entry of white oak group logs during the period October 15 - April 30.

Third Country Red Meat Directive and Hormone Directive: The EC's intended implementation of the third country red meat directive in January 1987 and the hormone directive in January 1988 would serve as serious non-tariff barriers for meat exports to the Community. Furthermore, not all EC member countries will be required to meet the same standards. Estimated impact: An inflexible application of these directives could stop meat exports to the EC, which in 1985 were valued at over $130 million. Action: On April 2, 1986 the U.S. began inquiries into the third country meat directive under section 305 of the Trade and Tariff Act of 1984. The U.S. is considering action under the GATT Standards Code against the hormone ban.

Export Subsidies-Agricultural Products: Export subsidies are granted on grains, grain-based products, livestock, dairy products, certain fruits, vegetables, nuts, sweeteners, oilseeds, wine and tobacco. Estimated impact: EC subsidies create lower world prices and a decrease in return to all competing producers.

EC export subsidies to third country markets have displaced U.S. exports of poultry, wheat, wheat flour and barley valued at $4 billion in 1984. Action: The U.S. filed a complaint under the GATT Subsidies Code on wheat flour, pasta and poultry, and has held trilateral talks with the EC wheat export subsidies. In March 1986, the U.S. initiated a series of bilateral consultations with the EC in lieu of its formal GATT complaint. The U.S. has used blended credits, and Export Enhancement Program and most recently a Targeted Export Assistance program to compete with EC subsidized sales. With respect to grains, our Export Enhancement Program is beginning to have some impact in offsetting EC penetration of markets in North Africa and the Middle East. In the broader framework, the U.S. is developing possible approaches for disciplining subsidies in the new upcoming MTN, based on the findings of the GATT Committee on Trade in Agriculture.

Processing Subsidies for Canned Fruit: The subsidy is paid to domestic producers of canned peaches, pears, and fruit cocktail. Estimated impact: U.S. exports have fallen drastically since the system was begun in 1978 (to less than $600,000 in 1985). Action: A Section 301 petition was pursued through the GATT dispute settlement process. Following intensive negotiations, an agreement was reached in November 1985 under which the EC will reduce its canned peach subsidy by 25 percent in the marketing year beginning July 1, 1986. The EC has also committed itself to removing the canning element of the processing subsidy.

FINLAND

Quantitative Restrictions-Softwood and Woodchips: There is a permanent embargo against softwood shipments from North America and Japan to protect against a nematode found on insects in wood from these areas. Estimated impact: U.S. exports of woodchips to Finland reached $11 million before embargo. Action: Sweden has done a risk evaluation study which is currently under review. The USG has proposed a joint scientific effort on this problem and a lifting of the ban during the winter when the insect is inactive. U.S. scientists have been working with Finnish authorities to set up a research program to provide a long term solution to this problem.

Wine: Import licenses for wine can only be obtained from the state monopoly "Alko Oy", and currently three U.S. wines are imported. In a Tokyo Round agreement, Finland agreed to stock additional brands if the U.S. revised their taxation system. The U.S. has complied, and Finland has added two wines. Estimated impact: California Winegrape Growers cite market potential. Impact of progress in this area will depend upon response of Finnish monopoly in opening the market. Action: U.S. officials will raise this problem. Finland is included in the second tier countries under the Wine Equity Act. Embassy officials have hosted wine tastings in Finland to boost familiarity and demand for U.S. wines.

INDIA

Tariff and Other Import Charges: The tariffs are high, especially on domestically produced items. In addition, India has a GATT waiver for imposing auxiliary duties. The private sector indicated a specific interest in reducing the almond duty (167 percent). The USG and India are continuing negotiations under GATT Article XXVIII for liberalization of tariffs on dried fruit and nuts and other items as compensation for broken bindings from a 1976 restructuring of the Indian tariff schedule. Estimated impact: Tariff reductions are meaningless in the absence of liberalization of the licensing system which strictly controls all imports. Action: It seems unlikely that GATT Article XXVIII negotiations will be completed soon.

Import Licensing: India's import licensing system constitutes the greatest barrier to trade. With the exception of bulk agricultural commodities, imports of goods produced in India, for the most part, are completely prohibited. Delays of 1-3 years for licenses occur. The secondary market for import licenses greatly increases the costs of imports at retail for items such as almonds. Certain imports, such as fertilizer and edible oil imports, must be channeled through state trading agencies. U.S. almond exporters have expressed a specific interest in license liberalization. Estimated impact: Despite recent streamlining of licensing procedures, U.S. trade with India which had a surplus of $600 million in 1980 moved to a deficit of $839 million in 1985. Action: The U.S. will continue to encourage liberalization of India's licensing regime during the Indo-U.S. Economic and Commercial Subcommission annual meeting. U.S. officials have met on numerous occasions with Indian counterparts in an effort to modify current import restrictions, particularly on almonds. Recently, the Government of India agreed to consider liberalization of its current licensing restrictions on almonds. We will continue to press this issue.

INDONESIA

Tariffs and Other Import Charges: The U.S. Trade Representative has received complaints about chocolate and sugar confectionery and almond tariffs, both 60 percent. Estimated impact: U.S. exports of sugar, chocolate confectionery, and almonds were valued at $5,000, $2,000 and $68,000 respectively in 1985.

Quantitative Restrictions: In 1982 Indonesia restricted, for balance of payments reasons, the importation of a broad range of agricultural products, including certain fruits, prepared meats, alcoholic beverages, and vegetables. This action affected a number of U.S. exports including four items which were bound in MTN negotiations (grapes, raisins, canned turkey meat, and citrus fruit, other than oranges). Estimated impact: U.S. exports of citrus fruit, grapes and other items have been significantly reduced. Action: U.S. will pursue GATT Article XXVIII consultations seeking compensation for the GATT-bound items if the import restrictions are not rescinded. It may also be possible to resolve this issue in the context of the GSP General Review.

JAPAN

Tariffs and Other Import Charges-Wood and Paper Products: In the MOSS Forest Products negotiations, Japan has agreed that in April 1987 it will begin reducing by 33 percent the high tariffs on plywood, veneer and particle board and other wood and paper products. Japanese tariffs will still exceed U.S. levels. Estimated impact: 1985 exports of wood products ($1 billion) were down from 1979 levels ($1.9 billion). Over 75 percent of U.S.-Japan trade is in logs and wood chips instead of processed wood products. Potential increase in trade if all tariffs were reduced to U.S. level exceeds $500 million. Action: The USG will monitor implementation of this first round of plywood and paper tariff reductions. We will seek further tariff reductions at a later date, and will continue to hold expert working group consultations established under the MOSS framework.

Fresh Grapefruit: The U.S. has requested that the 25 percent seasonal tariff (Dec-May) be cut to 10 percent year round (off-season rate of 12 percent). The July 1985 Action Program took no action on this long-standing priority request. Estimated impact: Japan is the largest grapefruit market for the U.S., but exports of $60 million in 1983 dropped to $51 million in 1985. Lower duties would have significant impact on increasing demand. Action: The U.S. repeated requests for tariff cuts at bilateral Trade Committee Meetings, most recently in March 1986.

Wine: The U.S. has requested that the 38 percent duty on bottled still wine be cut to 10 percent. The 1985 Action Program indicated that the tariff would be cut to 30.4 percent and such reductions went into effect on January 1, 1986. 1984 excise tax increases have offset any duty reductions. Estimated impact: Current U.S. wine exports to Japan total about $3 million a year. U.S. had a 6.6 percent market share in 1985. Since U.S. wine prices and quality are competitive, the U.S. wine industry believes Japanese demand would increase substantially with further tariff reductions. Action: The U.S. has reiterated requests for tariff cuts most recently at March 1986 Trade Committee meeting. Japan is a designated wine trading country under Title IX of the 1984 Trade Act. Consultations began in September 1985.

Walnuts: The U.S. requested that the 20 percent duty on shelled walnuts be cut to 4 percent. The July 1985 Action Program reduced the duty to 16 percent effective January 1986. In addition, Japan has now approved imports of in-shell walnuts from the U.S., at the same rate of duty. Estimated impact: The industry predicts that the cut to 4 percent result in $40-$50 million in shelled walnut exports. Action: The U.S. has pursued this issue in bilateral trade talks, most recently at the March 1986 Trade Committee meeting.

Chocolate and Chocolate Confectionery: Japan's 20 percent duty on chocolate and chocolate confectionery is among the highest of any industrialized nation. The U.S. has requested a cut to 7 percent. The July 1985 Action Program took no action on this request. Estimated impact: The duty handicaps U.S. exporter's ability to price against domestic producers. Tariff reduction could result in up to $10 million increased sales. Action: The U.S. repeated its requests at the March 1986 Trade Committee Meeting.

Quantitative Restrictions-Beef and Citrus: In August 1984, Japan entered an Understanding to increase its high-quality beef and citrus imports through March 1988. Estimated impact: An additional $400 million in beef and citrus exports should result during the life of the Understanding. The U.S. industry estimates that orange exports should increase by $50 million annually with quota removal. Action: The U.S. is monitoring the 1984 Understanding. The agreement includes a new system, called "Simultaneous-Buy-Sell," which applies to about 10 percent of beef exports permitting direct negotiations between buyers and sellers of beef.

Other Agricultural Products: Japan continues to maintain quotas on 12 agricultural tariff categories. The U.S. agreed to suspend GATT Article XXIII negotiations in return for expanded quotas and increased transparency in their administration. Estimated impact: Without quotas, the U.S. could fill a substantial portion of the market for these value-added processed products. Action: The U.S. and Japan are conducting negotiations of these "GATT 12" priority categories. Preserved pork products were liberalized in 1984.

Standards, Testing, Labeling and Certification-Food Additives: The MHW has a restrictive policy on food additive approvals. In 1983, 11 additives or new uses for existing additives were approved. Estimated impact: Continued progress on this issue should materially aid U.S. exporters. Action: The USG and industry have prepared a new additive request list for Japanese consideration. The July 1985 Action Program contains a commitment to move forward on this issue.

JAS Grading System: Grading and labeling for the JAS (Japanese Agricultural Standard) mark is administered by the Japanese Ministry of Agriculture, Forestry and Fisheries. There was some liberalization in July 1985 Action Program to permit JAS marks (quality marks) to be applied in approved U.S. facilities. Estimated impact: Affixing the JAS mark in the United States should enhance the salability of U.S. wood panel products in Japan. Action: As part of the Forest Products MOSS, negotiations are underway to try to implement Japanese Standards reform measures that would allow foreign plant certification in the U.S. by U.S. testing organizations.

Tobacco Shipping: Leaf tobacco from the U.S. cannot be shipped on U.S. lines. Estimated impact: U.S. firms are excluded from receiving contracts to transport a portion the $300 million in U.S. leaf exports. Action: Japan recently awarded contracts to transport a very small share of the tobacco to two American carriers. The second company believes their contracts will increase.

Other-Government Restrictions on Marketing Services: Japan's "Fair Competition Codes" restrict the ability of U.S. firms to market a wide variety of consumers goods (pet foods, beverages). Estimated impact: These measures limit the ability of U.S. exporters to introduce new products and effectively market existing product lines. Action: Both the U.S. government and the American Chamber of Commerce in Japan have held consultations on the effects of this legislation on imports. Japan is reviewing the situation and no new codes are under consideration.

Manufactured Tobacco: Problems with the distribution and marketing system in Japan continue despite privatization of the monopoly held by the Japan Tobacco and Salt Public Corporation.

Estimated impact: Barriers limit U.S. market share to 2.2 percent, or $100 million in a $5 billion market. Action: On September 7, 1985, the President directed USTR to initiate Section 301 proceedings against Japan's unfair trade practices in tobacco.

KOREA

Tariffs and Other Import Charges: Korea's tariffs remain high and average 31 percent, especially on high valued products. Action: In April 1985, the U.S. Government requested tariff reductions for meat products, fruit and vegetables, juices, nuts, wine, chocolates, cigarettes, wood and paper products, automobile parts, tools, construction equipment, computers and cosmetics. In July 1985, the Republic of Korea announced that it was not yet prepared to modify the tariff rates.

Quantitative Restrictions - High Quality Beef Ban and citrus Imports: Imports of high-quality beef have been subject to Ministry of Agriculture and Fisheries (MAF) approval since May 1985. Excluding 49 tons which were exceptionally approved for the IMF-IBRD conference in October 1985, the MAF has not approved any imports of beef and will not do so until there is a marked improvement in cattle prices and livestock farmer incomes. This import ban contravenes Korea's GATT obligations and impairs U.S. GATT rights. Estimated impact: Korea established a hotel beef quota of $5 million for the first half of 1985. No quota has been established for 1986. The U.S. is the leading supplier of Korea's hotel beef imports. Action: The restrictions were raised with Korean officials in May.

Fruits and Vegetables: Korea has placed a 150 ton quota for imports from the U.S. of frozen french fries, which represents a 90 percent reduction. In addition, quotas exist for imports of citrus, apples, peaches, fruit cocktail, grapefruit juice, grape juice and orange juice concentrate. Estimated impact: Frozen french fry exports were valued at $500,000 in 1985. Action: The restrictions have been raised with Korean officials.

Cigarettes: The Korean cigarette market is closed to foreign cigarettes. It is against the law to even possess foreign brands. Estimated impact: U.S. brands are popular and if the $1.8 billion market were open, U.S. brands would have a considerable market share. Action: USG has protested the ban and formally asked for elimination of Korea's restrictive laws. Korea has drafted legislation for liberalization of Korean cigarette market which should be submitted to National Assembly.

Import Licensing Restrictions: Korean's licensing restrictions are the major impediment to trade with the U.S. Agricultural import licenses are almost never approved for items of interest to U.S. farmers. Associations which compete directly with imports must approve import licenses. Estimated impact: Restrictions hit very hard in areas of American comparative advantage. Recent reductions in import licenses have hurt our grain sales prospects. Action: The U.S. continues to press for the placement of additional products on Automatic Approval status, and we have achieved limited success in the U.S.-Korea Economic Consultations in obtaining unilateral liberalization on a selective basis. In 1985, USTR designated Korea as a country with wine trade barriers under the Wine Equity Act. Consultations are scheduled.

Other-Wood Products: On April 11, 1986 the Korean Government issued a letter informing the U.S. Government of its intention to ban the import of all pine and larch species from North America. Estimated impact: Less than 1 percent of U.S. softwood exports to Korea are of pine or larch. Action: FAS is working with Korean officials to ensure that the ban does not adversely affect the other sizable wood exports to Korea.

MALAYSIA

Tariffs and Other Import Charges: U.S. exporters have complained about the high tariffs on chocolate (40 percent ad val or M$5/kilo) and sugar confectionery (30 percent ad val or M$1.10/kilo). Action: The U.S. embassy has made several representations at senior levels on the problem.

Import Licensing: Import licenses are required for chocolate and sugar confectionery. Action: The U.S. Embassy has made several representations at senior levels on the problem.

MEXICO

Tariff and Other Import Charges: Mexico has traditionally applied high tariffs and/or import licensing requirements in order to promote import substitution. Duties are particularly high on agricultural products, luxury goods and items produced in Mexico. In December 1985, Mexico announced a plan to reduce essentially all tariffs linearly over 30 months. The first of the ten tariff reductions scheduled through November 1988 was implemented on April 30, 1986 when a total of 4,580 tariff line items received duty reductions. Mexico is also in the process of negotiating accession to the GATT, which will include unilateral tariff concessions by Mexican.

Export Subsidies: Mexico's subsidy programs have been examined during the more than 25 countervailing duty proceedings against its products. Preferential pre-export and export financing are used by Mexico to promote exports directly. Estimated impact: The U.S. is the destination of 60 percent of Mexico's exports. Action: An Understanding on Subsidies and Countervailing Duties was signed in April 1985 in which Mexico agreed to eliminate its export subsidies in exchange for U.S. injury test. Mexico has committed itself to a phase-out of its export financing subsidies by December 1986. However, FOMEX credit for the manufacture and sale of exported products has recently been made available to so-called indirect exporters i.e., Mexican companies who supply inputs to final exporters.

NEW ZEALAND

Tariffs and Other Import Charges: Most tariff categories are not bound in the GATT and duties are generally high. The import regime is being reviewed and on December 19, 1985, New Zealand announced tariff cuts originally scheduled for 1986 and 1987. Despite these reforms, high duties (40-50 percent) will continue to apply to a number of goods, particularly those competing with domestic production. Estimated impact: Overall impact is positive and beneficial to U.S. trade.

Tobacco: New Zealand recently proposed to unbind its tariff on unmanufactured tobacco effective September 30, 1986. This tariff change nullified a GATT binding negotiated in the last MTN. Estimated impact: Depending on the new tariff, this could have an adverse effect on U.S. tobacco leaf exports, which accounted for 47 percent of all tobacco imports into New Zealand in FY 1984-1985. Action: The USG will closely monitor the impact of the tariff change on U.S. tobacco leaf exports.

Import Licensing: New Zealand has announced a move from licensing to tariffs and the phase out of most licenses over a 4 year period, beginning November 1984. Estimated impact: Most products now subject to import licensing could move to license-on-demand even before planned termination of the system in 1988. Action: The U.S. will continue to monitor this liberalization.

Export Subsidies: The announced phase out of New Zealand's subsidy programs took longer than promised. However, export subsidy programs on meat were terminated on September 30, 1985. The U.S. had expected the elimination of all subsidy programs by March 1, 1985 in exchange for recognition of New Zealand as a signatory to the Subsidies Code. Estimated impact: In April 1985, New Zealand reduced its remaining subsidies by 50 percent. Further reductions of 25 percent by April 1986 and total elimination by April 1987 are planned. Action: The U.S. withdrew the Subsidies Code injury test from New Zealand in April 1985. Since then three U.S. countervailing duty and one anti-dumping charge against sheepmeat have been assessed against New Zealand imports.

Standards, Testing, Labeling, Certification - Poultry: New Zealand restricts imports of U.S. poultry products for health reasons, even though New Zealand officials agree that the health restrictions are unwarranted. Estimated impact: Without this barrier, poultry exports could increase by up to $10 million.

Import Licenses - Apples and Citrus: Import licenses are awarded to only one importer each, effectively eliminating competition. Estimated impact: Eliminating this barrier could increase U.S. apple and citrus exports to New Zealand by up to $10 million.

NORWAY

Quantitative Restrictions-Apples: Norway restricts apple imports to no earlier than February 1 and not after April 30. The U.S. would like the entry date moved up to November 10, so that they can supply the Christmas market. The U.S. goal is the elimination of all trade restrictions. Estimated impact: 1985 U.S. apple exports to Norway fell to $256,000 from $1.3 million in 1984. Without restrictions, the U.S. believes that an additional $2.5 million could be sold. Action: U.S. Embassy has been instructed to make official request for greater access to Norway's apple market.

Wine: The government-owned wine monopoly controls marketing of all wines and spirits. Only two California wines are currently marketed. Estimated impact: The California Winegrape Growers have cited great market potential for Scandinavian countries. Action: The U.S. agricultural counselor will continue to encourage bulk purchases of California wines.

PAKISTAN

Tariffs and Other Import Charges: Pakistan relies on tariffs for a large part of its revenues. The U.S. is Pakistan's second most important trading partner, after Japan. The U.S.-Pakistan Economic and Commercial Subcommission was formed in 1984. Negotiations are still underway to determine compensation under GATT Article XXVIII following a revision of Pakistan's tariffs schedule in the 1970's. Estimated impact: The U.S. maintains a trade surplus with Pakistan which is inflated because it includes military and economic aid. Action: The U.S.-Pakistan Economic Commercial Subcommission and the Trade Working Group provide a forum to discuss specific issues.

PHILIPPINES

Quantitative Restrictions: The Philippines banned the importation of luxury items in October 1983 in the midst of an economic crisis. The ban prohibits the importation of luxury commodities by the private sector, but not the requirements of the hotel and restaurant trade. The trade restrictions have led to complaints from U.S. exporters of citrus, almonds, and a number of other agricultural commodities. Estimated impact: Citrus exporters estimate that the Philippines are a $4 million market, while almond exporters estimate $2 million in lost trade. Actions: The U.S. will monitor the Philippine economic situation. We have requested the GOP, under the GSP General Review, to remove restrictions and reduce tariffs on a variety of agricultural products, including fruits, nuts, seeds and wine. The GOP lifted the ban on imported wine in June 1985 and in December 1985 phased out the remaining 5 percent import surcharge.

PORTUGAL

Quantitative Restrictions Resulting from Enlargement of the European Community-Oilseeds and Products and Grains: Under the terms of the treaty for the accession of Portugal to the EC, Portugal has established an import quota for oilseeds and products and committed itself to purchase at least 15 percent of its grain from other EC countries. Estimated impact: The EC has given assurances that neither of these restrictions will affect U.S. exports in 1986, which averaged $552 million during 1983-1985. Action: The U.S. has retaliated by implementing non-restrictive quotas on U.S. imports of white wine, candy, chocolate, apple and pear juices and beer from the EC. If the Portuguese quotas become restrictive, the U.S. will adjust its quotas so that they will have some restrictive impact.

SPAIN

Tariffs and Other Import Charges-Enlargement of the European Community-Withdrawal of Tariff Bindings on Corn and Sorghum: The GATT tariff bindings on Spanish imports of corn and sorghum were withdrawn on February 11, 1986 so that the EC's variable levy system could be applied from March 1, 1986. Estimated Impact: U.S. exports of corn and sorghum to Spain, worth an average of $624 million in 1981-83, have been completely cut off since March

1. Action: The U.S. exercised its rights under GATT Article XXVIII and withdrew concessions on an equivalent amount of imports from the EC. Pending the negotiation of a permanent compensation agreement for the loss of the bindings for corn and sorghum, the EC has agreed to provide access for 2.7 million metric tons of U.S. corn and sorghum for 1986, a level slightly higher than last year. The compensation negotiations are expected to be completed by December 31.

Export Subsidies-Soybean Products: Spain has been given authority by the EC Commission to maintain certain domestically financed export subsidies during the transition period into the European Community. Action: The U.S. has requested more information on this as well as a proposed variable levy on soybean imports (based on oil content).

SWEDEN

Quantitative Restrictions-Apples and Pears: Imports of apples are only allowed after the domestic harvest is depleted. U.S. growers would like entry into the Christmas market and eventual elimination of restrictions. Estimated impact: If restrictions lifted, U.S. growers estimate additional $2.5 million in apple sales. Action: U.S. officials regularly inform Sweden of our interest in greater market access. The local Swedish importers' association also supports the lifting of the barriers.

Wine: The production, importation and sale of alcoholic beverages is regulated by a state monopoly. Estimated impact:: The California Winegrape Growers have cited Scandinavian market potential. Action: Interest in U.S. wines is excellent and the state monopoly has been in California exploring supply arrangements this year. Progress will depend on ability and interest of U.S. firms to supply the market on its terms. U.S. representatives have been active in promoting U.S. wines and in introducing U.S. producers to the monopoly's buying representatives.

Standards, Testing, Labeling and Certification-Softwood Lumber: On February 1, 1986, Sweden instituted a ban, based on a similar ban in Finland, which resulted from nematode infestation of a wood chips shipment, on imports of all softwood products. Action: U.S. officials and scientists are working with Finnish, Swedish and Norwegian scientists to set up a program of joint research to provide a long term solution to this problem.

SWITZERLAND

Import Licensing-Beef Imports:: Switzerland granted the U.S. an annual import quota of 700 metric tons of high-quality beef during the Tokyo Round. The Swiss import system encourages the import of lower-priced beef, hence U.S. sales have been small. Estimated impact: Swiss butchers are obligated to purchase all domestic beef offered at price support levels. To offset losses, they sell imported grass-fed beef, which has a higher profit margin than high-quality beef. As a consequence most of the U.S. quota goes unfilled. Action: The Swiss have implemented incentive programs to import more high quality beef, but the appreciating dollar has negated those measures.

TAIWAN

Tariffs and Other Import Charges: High tariffs are the major import barrier and the most frequent area of complaint in U.S.-Taiwan trade relations. Despite numerous negotiations to reduce tariff levels, the simple average tariff level at 35 percent remains comparatively high. Member dues of 4 percent of the dutiable value are assessed on most products. For a few items (tobacco, oranges, fruits and vegetable juices, alcohol, etc.) a commodity tax is assessed ranging between 10 and 120 percent. There is also a discriminatory levy on grains and soybeans of NT$242/ton. Estimated impact: It is impossible to determine the economic impact of these practices. Action: In August 1985, the American Institute in Taiwan (AIT) requested tariff reductions on 175 items of interest to the U.S. including, meat products, fish, fresh fruits and vegetables, and alcoholic beverages. Taiwan reduced some tariffs and eliminated the customs uplift in February of 1986. We are pressing for further tariff cuts in the context of the GSP General Review.

Quantitative Restrictions: Import bans are in effect for edible offals, poultry livers, pears and peanuts. The Taiwan Wine and Tobacco Monopoly Board controls all sales, promotion and distribution of tobacco, cigarettes, wine, liquor and beer. Action: AIT requested elimination of all import bans in August 1985. Some progress has been achieved in opening the market for U.S. beer, wine and cigarettes and discussions are continuing for full liberalization.

THAILAND

Tariff and Other Import Charges: In April 1985, Thailand raised tariffs on the average by 25 percent. Estimated impact: The tariff increases affected over $700 million or 68 percent of U.S. exports to Thailand. The duty on wheat was increased by 108 percent. In 1985, U.S. wheat exports to Thailand declined in value by 17 percent from 1984. Action: The U.S. has requested a tariff reduction on wheat in conjunction with the GSP General Review.

Quantitative Restrictions-Tobacco: Thailand bans imports of fresh citrus, sugar confectionery and cigarettes. Estimated impact: These import bans severely limit exports. For tobacco products, it is estimated that $300 million of U.S. cigarettes are illegally sold in Thailand. Unrestricted sales could double this amount. Other restrictions on leaf imports and the differential excise tax cause a continuing loss of U.S. sales estimated at $12 million over five years and $5 million per year respectively.

Restrictive Licensing-Soybeans: U.S. exporters of soybeans and soybean oil complain of lack of transparency or failure to issue import licenses. While Thailand reportedly lifted the soybean import ban in October 1984, licensing problems persist. For soybean meal, imports continue to be linked to domestic purchases. Estimated impact: The lack of transparency in licensing procedures has caused trade disruption. The last major import license issued for soybean oil was in March 1985. Action: During the GSP General Review, the U.S. requested that soybeans and oil be put on automatic licensing.

VENEZUELA

Import licensing: In 1983, Venezuela banned imports of all consumer goods comparable to those domestically produced and other non-essential products. It also added items to list of products only imported by the National Executive. This constitutes a *de facto* licensing system. Import licensing and a requirement to produce in Venezuela a percentage of imported seed also restricts U.S. seed exports. Estimated impact: This action reduced U.S. exports and limited growth potential. Action: Through the leverage provided by U.S. trade law, the U.S. will continue to pursue available options.

Export Subsidies: Venezuela provides both direct export subsidies, preferential financing and dual exchange rates to encourage exports. This has enhanced its competitiveness in traditional U.S.-Latin American markets. Estimated impact: Venezuela's subsidy program will be an obstacle for U.S. exporters to Latin American countries. Action: The U.S. will encourage Venezuela to eliminate its export subsidies.

STATEMENT OF TURNER L. OYLOE, EXECUTIVE DIRECTOR, AGRICULTURE COUNCIL OF AMERICA

Mr. Chairman, I appreciate the opportunity to appear before the subcommittee and to speak in behalf of a new export drive undertaken by the Agriculture Council of America.

The Agriculture Council, created in 1973 as a communications and educational arm for American farmers, has been reorganized under a new thrust. We have underway an action program directed totally at expanding U.S. agricultural exports, harnessing every possible resource to that goal.

ACA is concerned with any aspect of trade that reduces our ability to expand U.S. agricultural exports. Our concerns include the erection of formal or traditional trade barriers, the manner in which these barriers are administered, the use of non-tariff trade barriers, and the impact on exporters of threats of proposed trade actions.

The barriers to U.S. agricultural exports are well known, and the Office of the U.S. Trade Representative and USDA continually update, describe and calculate their impact. I would like to limit my discussion at this time to the three other obstacles already mentioned.

The European Community is especially proficient at administratively interpreting their rules and regulations which are designed to further restrict trade. The system of variable levies on imports of the most basic foods is an excellent example. As you are aware, the variable levy system is designed to restrict imports, primarily grains. The system penalizes efficient U.S. exporters by increasing the levy as world prices fall, thereby protecting the EC's internal grain prices from world prices. Administratively, the EC calculates the levy based on the difference between its domestic support prices and world prices. However, one often has problems understanding how the EC Commission calculates the levy. This is also the situation for other products subject to variable levies, including poultry meat and red meats. The trade is also hampered from time-to-time by the period fixed for a given levy. The Commission controls this period and varies it according to their own administrative desires. The Commission also decides minimum import prices for a number of fruits and vegetables, and it is often not possible to comprehend how they arrive at these decisions.

In the non-tariff arena, the EC uses a great deal of discretion on interpreting rules and regulations for meat inspection, animal health and food additives. The third country red meat directive, designed to protect human health, has been a continuing problem for us. More recently, the EC has passed legislation to halt the use of livestock growth promotants. This action was taken over the objections of the EC's own appointed blue-ribbon scientific committee and over the objections of the United Kingdom. Obviously, the livestock growth promotant band cast a dark shadow over future exports of U.S. high quality beef and livestock variety meats to the EC.

The problem of trade barriers is further extended by threats of new actions. During my 11 years in the EC, I suppose the questions of a vegetable oil tax, protein meal quotas, and corn gluten feed quotas have arisen on almost a monthly basis. These questions, combined with threats of safeguard actions for certain fruits and vegetables, have played a major role in increasing the fears of U.S. exporters over their hard-earned export markets.

What is the moral of this story? The threats of contemplated actions, interpretations of regulations, political decisions that fly in the face of sound public health requirements and bureaucratic ineptitude create an environment that reduces exporters' willingness to expose their firms to these trading conditions.

There are a few who say the United States follows the same types of programs. This is not true. From my own personal experience, I can assure the committee that the USDA does not use management of import programs as device to restrict agricultural imports.

The examples that I have given are limited the the European Community. I am certain that there are examples in other countries which my colleagues in the trade and the Foreign Agricultural Service could make available. Suffice it to say that these interpretive trade barriers are definitely obstacles to the movement of U.S. agricultural exports in the world market. Uncertainty must be taken into consideration by our exporting firms. The additional costs of the uncertainties, at a minimum, increase operating expenses and always discourage firms from developing export markets.

Our GATT negotiators realize the importance of these obstacles and, by addressing codes of conduct and new international standards, hope to be able to reduce the impact of these interpretive regulations on our agricultural exports.

There is one more important point we should discuss. Our Foreign Agricultural Service has available, throughout the world, excellent information and expertise concerning how these barriers function and what steps can be taken to overcome them. I would suggest that firms new to the market check with FAS Washington before embarking on costly and time-consuming trade missions. Our agricultural counselors, attaches and trade officers are "gold mines" to prospective exporters.

Thank you for inviting me to address the subcommittee.

STATEMENT OF ROBERT L. PAARLBERG, ASSOCIATE PROFESSOR OF POLITICAL SCIENCE, WELLESLEY COLLEGE

As we approach another round of GATT negotiations on international trade liberalization, it is entirely appropriate for this Subcommittee to review the role which GATT can play in helping to liberalize agricultural trade specifically. I applaud you for scheduling these hearings, and for giving those of us with different views a chance to speak.

My own views on GATT and agricultural trade will strike you, at first, as pessimistic. I would like to argue, this morning, that the upcoming round of GATT talks is not likely by itself to produce the movement toward agricultural trade liberalization that most of us desire. But my larger point will be to remind us that the task of agricultural trade liberalization, fortunately, does not have to be entrusted exclusively to GATT. There are things the U.S. can do without waiting for GATT.

First let me give GATT its due. The GATT has had spectacular success, over the years, in helping nations to reduce tariff barriers to manufactured trade. Since 1949, seven successive rounds of GATT negotiations have reduced average tariffs on manufactured trade from their original post-war level above 40 percent all the way down to a level of less than 5 percent today. Unfortunately, this GATT success in reducing tariff barriers to manufactured trade is not easily transferrable to the realm of agriculture.

The "tariff" barriers to manufactured trade that were successfully reduced by GATT over the years were all fixed border taxes, applied only to imports, and they all had effects on trade which were transparent, relatively constant, and easy to quantify. Also, these tariffs on manufactured trade usually stood alone; they were seldom tied directly to domestic "industrial" policy mechanisms (many were put in place at the border, originally, simply to raise revenue). For all of these reasons, it was not too difficult for teams of GATT negotiators to reach agreement on the phased reduction or elimination of these barriers. Particularly after the 1930s, when the sudden multilateral increase of these tariffs choked off trade and deepened the Great Depression, the lesson was learned that multilateral tariff reductions, negotiated in GATT, could be good for all.

In agriculture, for curious reasons, a somewhat different lesson was learned from the Great Depression. The crisis of the 1930s somehow persuaded agriculturalists to place less trust in the revival of free international trade, and more in the regulation and support of domestic trade. In 1933, the U.S. joined most other industrial nations of the world in imposing considerable regulation on domestic farm markets, farm prices, and farm production, more than anything ever seen in industry.

It is because of this tight domestic regulation of agriculture that most industrial nations feel they must intervene so heavily in international agricultural trade. Without international policies to adjust farm trade at the border, the domestic policies that fix prices and constrain farm trade within our borders would not be able to function, at least not at acceptable cost to taxpayers. In this sense, farm trade barriers at the border are not really designed to "protect farms"; in most cases it is more accurate to say they are designed to protect domestic farm programs.

In order to perform this function, international farm trade barriers must of course be just as numerous and just as complicated as the domestic programs which they have been designed to protect. They also must be highly changeable in their impact on trade, since they must be able to compensate for all of the inflexibility and unchangeability of domestic farm support and regulation measures. To meet all of these specifications, of course, most farm trade barriers must be designed as "non-tariff" barriers (such as variable levies, import quotas, export subsidies, etc.). And these NTBs produce trade results that tend to defy easy measurement, thus complicating the task of reaching reciprocal reduction agreements within GATT.

Moreover, since most farm trade barriers are in place to protect domestic farm programs, an agreement to adjust those barriers will not be reachable without a simultaneous acceptance, by all nations concerned, of farreaching domestic program reforms. It is this implied need to undertake farreaching domestic policy reforms which makes the removal of farm trade barriers so difficult, all the more so within GATT, where the implied domestic reforms which must be embraced and undertaken simultaneously may not even be considered discussable in international negotiations.

In order for U.S. GATT negotiators to make any progress on farm trade liberalization, in Geneva, they will need unprecedented authority to talk with foreign governments about possible changes in domestic U.S. farm policy. In fact, they will need authority to trade away some of the more protective elements of U.S. domestic farm policy in hopes of being given parallel concessions in return, since the trading of concessions is how GATT negotiations have always operated. If history is any guide, the U.S. Congress -- including this Committee -- will not be willing to grant our negotiators such sweeping authority.

And even if Congress were willing to delegate sufficient power over farm policy to its GATT negotiators, will political authorities in other nations do the same? Will the all-powerful Council of Agricultural Ministers inside the European Community, which has long enjoyed exclusive authority to manage the Common Agricultural Policy, hand over that authority to the "Eurocrats" from the EC Commission, for the purpose of enabling EC negotiators to offer concessions to the Americans? Once again, if history is any guide, EC negotiators will come to the table, just like U.S. negotiators, not authorized to offer any concessions that might imply a radical change in the existing mechanisms of domestic farm policy.

Little wonder, with all these facts in mind, that over the years GATT negotiations on agricultural trade liberalization have made such scant progress. During the 1959-61 Dillon Round of negotiations, agricultural programs were set aside altogether, through a series of special "standstill agreements." And during most of the 1963-67 Kennedy Round, the EC was too busy increasing its farm protection levels at home, under the newly elaborated Common Agricultural Policy, to spend much time even talking in GATT about a negotiated liberalization abroad.

A much earlier sign that GATT was going to have trouble liberalizing agricultural trade came at the very beginning, when it was the U.S. that insisted on certain illiberal exceptions for agriculture -- for example, the exception written into GATT rules which allows in some circumstances the use of quantitative restrictions on imports of agricultural products. Without such exceptions, U.S. domestic farm programs would have been unable to function, and Congress would have rejected the GATT process from the start.

Unfortunately, not even these special exceptions were enough to allow the U.S. to continue, under GATT, with some of its ongoing domestic farm programs (specifically dairy programs, which used import quotas which were unaccompanied by any of the requisite production controls needed to satisfy Article XI of the GATT). A finding was reached in 1951 that the U.S. had "infringed" on Article XI. Congress nonetheless went ahead to amend basic U.S. farm legislation in Section 22, to require that the administration impose quantitative restrictions, or special fees, whenever domestic support programs are endangered by free trade. The existence of this legislative provision made it necessary for the U.S., in 1955, to ask for a permanent "waiver" from even the watered down import liberalization requirements found in Article XI. Under the cover of this waiver, the U.S. since 1955 has gone forward at various times with dairy, beef, sugar, and peanut import restrictions which do not even comport with the more lenient GATT rules that the U.S. itself had originally helped to author.

GATT rules were also originally written, at the insistence of the U.S., with an exception that permits the use of highly illiberal agricultural (and other "primary product") export subsidies. The only restriction was that such subsidies should not be used to capture a "more than equitable" share of world trade (taking into account an undefined "previous representative period"). It was the EC, unfortunately, which took greatest advantage of this export subsidy exemption, once the CAP began generating internal farm surpluses that could not be disposed of in any other way. This turnabout prompted the U.S., during the Tokyo Round, to insist upon the creation of a special Subsidies Code, which tightened the language against farm export subsidies to some extent, prohibiting their use if the result is a displacement of the exports of another country, or if they provide prices materially lower than those of other suppliers to the same market. The new Code also defined the previous representative period as the "three most recent calendar years in which normal market conditions existed", and it created a multilateral mechanism through which signatories were told they could enforce their rights under the Code.

Unfortunately, the first important test of this new dispute settlement mechanism -- in the case of EC wheat flour export subsidies -- was a disappointing failure. In February 1983 (after six years of delay) the Subsidies Code mechanism yielded only an ambiguous "non-verdict": it was found that EC subsidies had probably caused "undue disturbance to normal U.S. commercial interests," but were not a proveable cause of price undercutting, or of the EC gaining a "more than equitable share". By then the Code mechanism had become less relevant in any case, since the U.S. had begun retaliating against the EC with wheat flour export subsidy programs of its own.

The U.S. has done no better in its many other attempts to resolve export subsidy disputes through GATT. A GATT panel did decide in favor of a U.S. protest against subsidized EC pasta exports, which were penetrating the U.S. market directly, but the EC ignored the finding. The EC also ignored a panel recommendation that it alleviate injury to the U.S. by reducing its preferential citrus imports from Mediterranean countries. The U.S., out of frustration
,
finally responded to these GATT settlement failures last year with a unilateral increase in its own tariffs on imported pasta. But the EC then counter-retaliated by increasing customs duties on fresh lemons and walnuts, and by suspending some scheduled pasta subsidy reductions.

GATT rules have also failed, so far, to force the EC to compensate the U.S. for the trade losses that will be suffered in Spain and Portugal as a result of the recent Community enlargement. The U.S. believes that it is entitled, under Article 24.6, to an "intraline" credit, meaning that compensation for farm trade damages will have to come in the form of an offsetting farm trade concession. EC officials have admitted that this U.S. interpretation of GATT rules is literally correct, but they have rejected intraline credits on the curious grounds that they are impractical for actually doing business internationally. The EC is seeking to avoid its literal GATT obligations by instead offering the U.S. an "interline" credit, which would allow only some uncertain industrial trade gains to be used as compensation for farm trade damages.

I conclude from this long record of frustration that the well established GATT techniques of international negotiation and "rulemaking" that have done so much to liberalize trade in industry, are not a proven means of liberalizing trade in agriculture. GATT has repeatedly failed at this task in the past, and I see few reasons to forecast a sudden switch to success in the near future.

It is therefore fortunate, I believe, that the U.S. does not have to rely exclusively on GATT if our purpose is to liberalize international farm trade. At least in those international farm markets where the U.S. is a large and low-cost producer, significant progress toward liberalization abroad can be made by acting unilaterally, to liberalize farm support policies at home, and also by disciplining macroeconomic policies, so as to control the exchange rate fluctuations that have also reduced the efficiency of farm trade lately.

Let me be clear. I am not talking about unilateral farm policy "disarmament". By going first with liberal domestic farm policy reforms which place our most efficient farm producers in a more competitive international trade posture, the U.S. is not "giving away" anything. On the contrary, it is getting something back -- it is reversing the recent pattern of non-comptetitive export pricing which was itself a giveaway trade policy of tragic proportions for U.S. agriculture.

Too many of the farm policy actions that have been taken at home by the U.S. in recent years -- such as the 1983 PIK acreage reduction program -- only made it more affordable for our less efficient foreign competitors to maintain their illiberal farm trade policies and capture larger market shares at our expense. Our schizophrenic macroeconomic policies (overly-disciplined tight money policies, to counteract undisciplined fiscal policies) made things worse by driving up dollar exchange rates.

By liberalizing our own farm policies and by disciplining our macroeconomic policies at home -- in other words, by unilaterally removing the unwitting assistance which we have given to our less efficient foreign farm trade competitors -- we can immediately accomplish several things without having to wait for an improbable success in GATT.

First, we can increase the U.S. share of world farm exports. Second(assuming market-oriented target prices as well as loan rates), we can reduce the intolerable budget cost of our own farm programs. And third, we can increase the budget cost of the market-distorting farm programs which our competitors have recently found it so affordable to maintain abroad. As those costs increase, prospects for parallel internal reforms abroad will then increase as well.

For example, the internal farm price and production restraints which are needed within the EC today -- needed for the benefit of U.S. agriculture -- are more likely to come in response to internal EC budget pressures than in response to any combination of reasoned arguments or reciprocal concessions that the U.S. might offer in GATT. And the U.S. has it within its power to create additional budget pressures inside the EC -- through the unilateral embrace of more liberal domestic price and production policies here at home. Lower U.S. dollar exchange rates and commodity loan rates have already done more, this year, to push up the cost of foreign farm programs, and to pressure our foreign competitors into thinking about liberalization, than anything we could have been offering them in GATT.

In the end, therefore, while I may be something of a pessimist on the role which GATT can play in leading the way toward farm trade liberalization, I consider myself an optimist on the role which the U.S. can play, by continuing to move its own policies in a liberal direction on its own initiative.

STATEMENT OF VERNON R. McMINIMY, DIRECTOR OF COMMODITY RESEARCH, A.E. STALEY MANUFACTURING CO.

Mr. Chairman, I am Vernon McMinimy, Director of Commodity Research for A.E. Staley Manufacturing Company, a wholly owned subsidiary of Staley Continental, Inc. Staley Continental has diversified interests in food processing and food distribution. We are one of the leading producers of corn sweetener in the U.S. We are particularly pleased to have the privilege to appear before this subcommittee.

The subject of these hearings, "Barriers to Agricultural Trade, Market Access and Export Subsidies Around the World" is one of major importance to Staley Continental, to the agricultural community and indeed, to all citizens of the United States.

Recently this country celebrated the Fourth of July, our day of independence with special commemoration of the Statue of Liberty--a most fitting symbol of liberty and freedom. Yet this nation, where liberty and freedom are honored and highly prized, is facing the erosion of liberty and freedom too compete in the agricultural markets of the world. That liberty and freedom is being ever more restricted by foreign government intervention through, (1) the use of measures that limit the access of U.S. agricultural products and, (2) export subsidies that diminish our overseas markets.

We will illustrate the extent to which such foreign practices can be carried by presenting the situation that now exists in the world sweetener market. We believe that the world sweetener market is the market most heavily impacted by foreign government market intervention in the world today.

The price of sugar in the world market is presently trading at about six cents per pound for raws, the equivalent of ten cents per pound refined. Last year at this time, the world raws traded, for a time, below three cents per pound (seven cents per pound refined). These price levels are below the cost of production for any country in the world. At these price levels, every producing country provides subsidies for their producers and/or subsidizes the sugar being exported. Thus, we see world market for sugar as a dumping market, one in which the price reflects governments' willingness to subsidize--not a price that reflects the cost of producing and delivering the product.

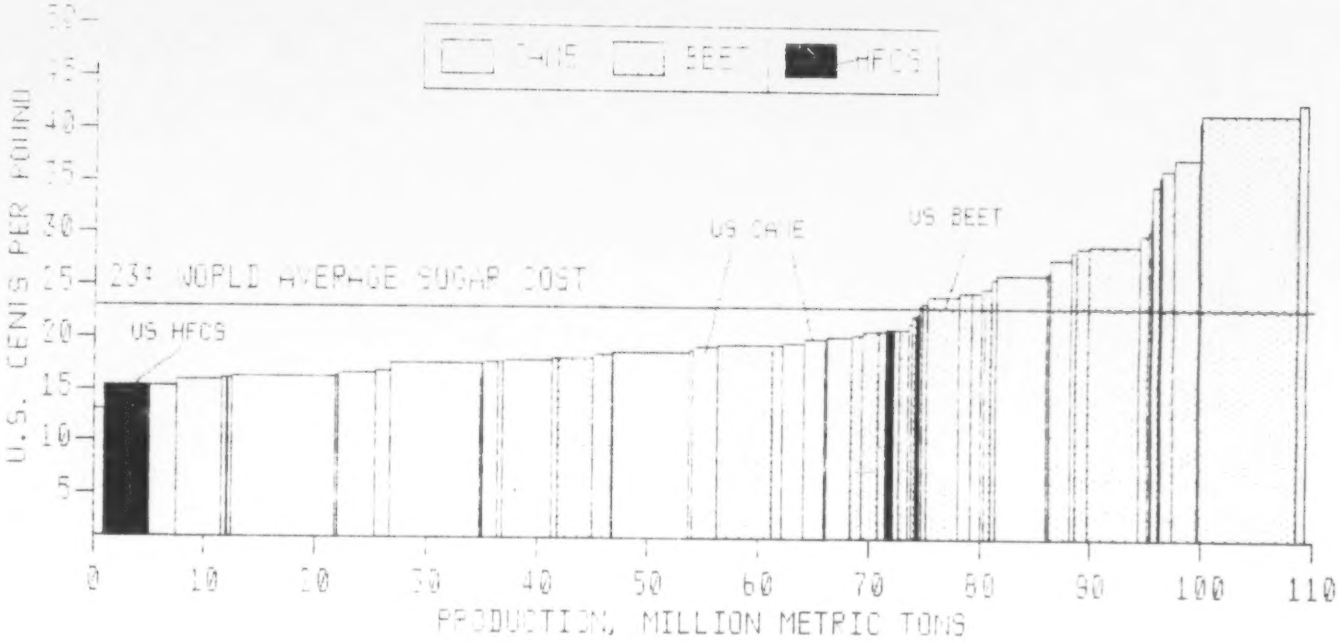
Landell Mills Inc., an economic consulting firm based in London, England, with the use of economic engineering procedures, has developed an estimate of the average cost of producing sweetener for each sweetener producing country of the world. Their cost of production estimates are shown in the attached chart. Their data show that the long run cost of producing sweeteners range from a low of 12.8 cents per pound to nearly fifty cents per pound. The weighted average cost for sugar is twenty-three cents per pound, nearly 2 1/2 times today's world market price for refined sugar.

In the period 1982/83 through 1984/85, production of world sugar exceeded world consumption by 3.3 percent. If the world market for sweeteners had been a free market cost producers would be out of business. Taking that tonnage away and adjusting for the loss of consumption at the higher world price, would imply production and consumption would be equal (in equilibrium) at a price of

WORLD SWEETENER COST

REFINED U.S. BASIS

1984/85(1)



(1) HFCS 1985/86

forty-one cents per pound--roughly four times the price of refined equivalent sugar in the world market today.

The difference in today's world market price of ten cents per pound, and the estimated free market equilibrium price of forty-one cents per pound is a measure of how irrational the world sugar market is.

The world sugar market is not a market based on the cost of production, but one that is based on an extensive involvement of governments utilizing subsidies and market barriers. Because of this, U.S. consumers are being subsidized by foreign governments and producers, which in some cases is at a grevious cost to such countries. U.S. consumers pay about twenty-five cents per pound for sugar (ignoring transportation and packaging costs) or sixteen cents per pound below the long run world equilibrium cost of production. That calculates to a $1.1 billion subsidy that comes from some countries whose average per capita income is much lower than that in the U.S. If we in the U.S. wished to do something that is truly beneficial for the countries that export sugar to the U.S., we could do nothing better than to take action that would ensure that the world sweetener market is one that truly reflects the cost of production. Accomplishing this requires that we work to eliminate all governmental intervention in the production and distribution of sugar around the world.

Now is an appropriate time to start that process. A new round of GATT negotiations are expected to begin this fall. It is important that in those deliberations, our negotiators carry as their primary objective, the goal of improving the structure and integrity of the markets for world agricultural markets. Those markets must be structured such that cost of producing the product is a central element in determining the price of the product.

If this is not accomplished, then the world markets for an increasing number of agricultural products, will become as irrational as the world market for sugar is today. Unless this is accomplished, how will our producers know what to produce or how much of it to produce? The world will be faced with increasing supply/demand imbalances, growing stocks, and world market prices that bear little, if any, relationship to production costs just as presently exists in the world sugar market.

Negotiations generally involve a give and take by the parties involved. We expect this will occur in the forthcoming new round of GATT negotiations. We suggest that Congress instruct our negotiators that under no circumstance will the U.S. yield concessions in a given commodity group, such as sugar, that results in the further disassociation of price and cost of production to obtain concessions in another agricultural commodity group or nonagricultural sector. To do so would further impair the prospects for obtaining a rational world marketing system for sugar. We feel strongly that this is a principle that should be applied across the board for all commodity groups and sectors involved in the negotiations. To fail on this point would result in the U.S. becoming a party to the continued erosion of the integrity and rational structure of world markets for agriculture.

One means of improving world agricultural markets is to establish a subsidy code. Under this procedure, agreement would be reached where countries who are now subsidizing producers and exports, reduce those subsidies in a balanced and phased manner. This was accomplished regarding tariffs in earlier GATT negotiations. That principle should now be applied to subsidies. However, again emphasis in reaching an agreement to reduce subsidies must be directed such that market integrity is enhanced-that is the link between price and the cost of production and delivery is enhanced.

In addition, the GATT negotiations should result in strengthening the process of resolving disputes. The timely resolution of disputes is of great importance to improving the rational functioning of world markets. A dispute that is allowed to exist for an interminable period of time is a means of avoiding the creation of a rational marketing system.

Achievement of these objectives may be difficult to obtain. However, if we do not strive for them, we cannot hope to achieve them. It is important, therefore, that we make these goals the center of our effort.

Government intervention extracts another cost of world consumers - one that is not at all obvious. Products derived from the application of new technology, produced more cheaply than the traditional commodities, may be impaired in their ability to compete on a fair basis in the market. Sweeteners derived from corn starch are examples of such products.

Within the United States, where the competition for markets is largely based on the cost of production and delivery, corn based sweeteners have been able to obtain fifty-one percent of the caloric sweetener market. Outside the U.S., corn based sweeteners have been able to obtain only four percent of the world market for caloric sweeteners. This has occurred in spite of the fact that the highest cost producer of corn based sweetener can produce the product for twenty-three cents per pound - essentially equal to the average cost of sugar production in the world and sixteen cents per pound less than the equilibrium cost of production. The cost of producing high fructose corn syrup in the U.S. is estimated to be near fifteen cents per pound - roughly one-third of the estimated world equilibrium price for sugar.

We have projected that the production of corn sweetener in the world without the interference of governments would result in an additional demand for corn of 3.2 billion bushels per annum. To obtain that market, which is open to corn sweeteners due to their advantage in the cost of production, requires that the international sweetener market become a rational market where the right to produce and distribute the product is based on the cost of producing and distributing that product.

We have innovation and technology to thank for most of the products we enjoy today. If we now allow governments to prevent or slow the rate at which safe and efficient technology is applied, then we are embarking on a road that will lessen the welfare of our descendants. The adoption of new technology will result in the reallocation of resources, including human resources. It is our responsibility in our time to see that this process takes place and occurs in a rational manner.

New technological development is occurring at an ever increasing rate and is challenging our need to make adjustments. To thwart the use of these technological developments will result in greater adjustments made in shorter time periods and result in more disruption if these adjustments are delayed than if those adjustments are permitted to occur under open and free market conditions.

Today more than half of the corn sweeteners produced in the world are produced in the U.S. We believe that the slow growth in the production of corn sweeteners outside of the U.S. is the direct result of governments explicitly intervening in their markets. In doing so they are denying their consumers a safe and less costly product and are denying a market to corn producers.

To correct this situation requires that the world markets for agricultural products become much freer of government intervention than they are today. It requires that these markets must be free to compete on competitive advantage basis - free of export and production subsidies that disassociate price from production costs.

Unless the tendency of governments to intervene can be reversed, or at least appreciably reduced, and world markets made more reflective of the costs associated with producing the goods traded, then it would seem reasonable safe to predict the patterns of commerce for an array of commodities will eventually mirror those existing for sugar.

Achieving rational world markets require the coordinated participation of all principle trading nations. Attempting to achieve rational markets through unilateral action will only result in rewarding those countries employing predatory trade practices. For example, any attempt to achieve a more rational world sugar market by weakening or eliminating the U.S. Sugar Program will only sacrifice our more efficient domestic sweetener industry to foreign government subsidies.

At the beginning of my remarks, I alluded to the freedoms we so recently celebrated during our national holiday - and I would suggest that now is the time to begin to apply the reason and logic of these freedoms to the commerce of the world. Achieving rational world markets, markets responsive to economic rather than political conditions, should be the goal of U.S. negotiators as they enter the new GATT round.

STATEMENT OF BOBBY BRYAN, MEMBER, EXECUTIVE COMMITTEE, NATIONAL PORK PRODUCERS COUNCIL

My name is Bobby Bryan and I am a pork producer from Dillwyn, Virginia. I am also a member of the Executive Committee of the National Pork Producers Council and I am testifying today on behalf of the 110,000 members of the Council, the largest commodity dues paying organization in the United States.

The Council appreciates the opportunity to present its views with respect to a number of trade issues affecting United States pork producers. We applaud the decision of this Subcommittee to hold hearings on these trade matters to insure that our concerns will not be ignored in the development of omnibus trade legislation or, we hope, in the implementation of U.S. trade policy in general.

Before raising the issues of main concern to the Council, I would like to stress that domestic pork producers are efficient, capable and able to compete with producers of fairly priced and fairly traded pork anywhere in the world. We benefit from no specific government support, but must earn all of our revenues (and take our risks) from the free market. Furthermore, except for minimal duties on certain products, imports of foreign swine and pork are normally free to enter the United States essentially without restriction. Accordingly, we are fully justified to express our concern about unfair trade practices abroad which adversely effect our ability to sell our product at reasonable prices.

Our trade problems are not imaginary. In 1985, imports of pork totalled 512,000 metric tons, an increase of 18 percent over 1984 levels. Likewise, 1984 pork imports were 36 percent over 1983 levels. On the other hand, U.S. exports of pork products have declined from 93,000 metric tons in 1983 to 74,000 metric tons in 1984, and to 58,000 metric tons in 1985. Thus, in two years, pork imports increased by 57 percent while U.S. pork exports decreased by 71 percent. Partial statistics for 1986 indicate that pork imports remain high and that the quantity of exports continue to fall. Almost without exception, the increase in imports and the decline in exports can be traced in part to unfair trading practices of foreign countries, including export subsidies and unfair restrictions on shipments to important foreign markets.

Pork producers are not the only agricultural producers who have been affected by these practices. In its recent report to the President and Congress, the National Commission on Agricultural Trade and Export Policy concluded that American agriculture is under unprecedented assault by the unfair trade practices of foreign governments. These practices are greatly responsible for the downward trend in agricultural exports in the past several months. This trend is highlighted by the May 1986, agricultural trade deficit, the first agricultural trade deficit since 1959.

The National Commission on Agricultural Trade and Export Policy has recommended that agressive actions be taken by the Federal Government to meet and counteract the effect of unfair foreign trade practices. Foreign agricultural trade practices have been addressed in the House of Representatives as part of H.R. 4800, the omnibus trade bill, which passed the House in May of this year. The U.S. must respond to these practices by enactment of these and other elements of this bill, as well as by the implementation of last year's farm legislation, by the development of the Administration's trade policies, and finally by the conduct of upcoming bilateral and multilateral trade negotiations.

I now wish to address a number of trade matters which are of particular concern to the National Pork Producers Council and its members. The Food and Security Act of 1985 authorized an Export Enhancement Program for agricultural commodities, in part to counter the adverse effects of subsidies and unfair trade practices of other countries against U.S. exports. Approximately a billion dollars in commodities has been authorized to be utilized under the program during the next three years. The Council strongly supports this Program, since it will help to counter the adverse effects of foreign unfair trade practices on pork exports and, at the same time, create an incentive for foreign countries to modify their practices so that such exports may be more freely traded in the future.

However, the Program as administered by the Department of Agriculture is made subject to several restrictions which greatly undercut its value to domestic producers. In the first place, the Enhancement Program can be used to support only those agricultural exports in excess of levels already being exported to particular countries. However, since it is the total amount of trade to the affected countries which is being adversely affected by foreign unfair trade practices, it makes little sense to limit the use of the Enhancement Program to a small percentage of U.S. sales to such markets. U.S. producers are required to absorb the losses generated from unfair trade practices on historical levels of sales to these markets, before they can benefit from the enhancement program with respect to any increment of sales over previous years. In many cases the U.S. exporters could qualify for the program, but would still be shipping to such countries on a net loss basis. This fact, of course, eliminates the attractiveness of the Program and insures that it will not be used to any great extent.

In addition, as administered by USDA, the Export Enhancement Program is limited to markets directly affected by subsidies and unfair trading practices of foreign countries, even though the adverse impact of such foreign practices spreads to other export markets of U.S. producers. Foreign subsidies and other practices limiting U.S. exports affect prices and, therefore, volumes of sales to all markets in the world, even though such foreign practices are not directed to all national markets. These restrictions must be eliminated or modified. Otherwise, the Export Enhancement Program will be ineffective and will not provide any benefits to domestic producers.

Another trade matter which could seriously affect the domestic red meat industry is the Third Country Directive of the European Community (EC). The EC has agreed to delay the implementation of the Directive, which was originally scheduled to go into effect on June 1, 1986, until January 1, 1987. Because of the Directive's burdensome requirements, U.S. meat producers and packers welcome this postponement. Yet this decision would only delay the effects of the Directive on the U.S. industry; it would not lessen them. The Directive would require U.S. packing plants to meet a number of new requirements before they would be allowed to ship red meat for consumption in the EC countries. While any country has the right to impose reasonable health and safety standards on imports, the EC Directive is particularly onerous and would establish burdens on U.S. packers in excess of any reasonable requirements for health and safety. The requirements in the EC Directive appear to have been developed with protectionist as much as health and safety motives in mind.

The Directive includes the requirement that imports of meat products be accompanied by certificates relating to animal public health which must be signed by official veterinarians who have access to sufficient information to insure that certified meat complies in all respects with Community requirements. Further, the Directive would require the elimination of wood pallets, equipment, walls and wooden handled knives; the construction of new truck washing facilities; additional veterinary staffing at slaughter establishments which would require at least an additional one-half veterinarian per slaughter establishment; and post-mortem requirements which would require another three inspectors per establishment for post-mortem procedures.

The United States Government is currently negotiating with the European Community in an effort to liberalize the Directive so that it will contain more reasonable requirements for domestic packers. If this effort is not successful, a large number of U.S.

packers will be precluded from shipping meat to the Community. Current estimates are that $125 million in U.S. red meat exports could be lost if the Directive enters into effect as presently drafted. This loss in red meat exports will have a direct, adverse impact upon pork and other livestock producers.

This Committee must send a clear signal to the Administration to take a firm stance with respect to the European Community on this issue. Furthermore, this problem may be appropriate for inclusion in the omnibus trade bill, and it is certainly an appropriate issue for inclusion in the upcoming round of multilateral trade negotiations with the EC. Both the U.S. and the EC are members of the GATT Standards Code which was negotiated during the last round of multilateral trade negotiations. As signatories to this Code, neither party can adopt standards which unreasonably and unfairly restrict imports of products from signatory countries.

There are additional health and safety related trade issues which are of concern to the Council. The Canadian Government currently imposes a thirty-day quarantine on U.S. exports of live hogs to Canada. The Canadian quarantine program is an unreasonable reaction to the fear that swine infected with pseudorabies will enter Canada. Though officials of Canada argue that Canada is free of pseudorabies, our view is that it would likely be found there as well if Canadian animals were tested for it. U.S. imports are only permitted from herds which are certified as having been free of pseudorabies for one year, and, even then, the imported animals must be quarantied for thirty-days. This quarantine requirement effectively precludes the shipment of U.S. swine for slaughter to Canada. This embargo is particularly unfair since it is being imposed at a time when Canadian imports of swine have flooded the U.S. market.

As two separate Section 332 studies by the International Trade Commission have demonstrated, domestic pork producers have been adversely affected by subsidized imports of swine, and fresh and processed pork products from Canada and the European Community. In the case of Canada, the Council successfully brought a countervailing duty petition which demonstrated that Canadian swine and pork products were being unfairly subsidized in Canada. In fact, the subsidies were so great that swine imports into this country from Canada now face a duty of about $7.00 per head. Unfortunately, the Commission, through a rigid and formalistic interpretation of the law which ignored the realities of trade in agricultural products, found essentially that hog producers were not related to the industry producing fresh pork and, therefore, that no duties would be imposed on fresh pork from Canada.

This decision reflects a total misunderstanding of the interrelationship between livestock and fresh meat. It is ironic to note that the Canadian Import Tribunal recently took the opposite and, we think, more realistic view of the relationship between livestock and fresh meat producers. In a decision recently handed down in connection with a countervailing duty investigation against imports of subsidized beef from the EC, the Canadian Tribunal determined that Canadian cattlemen had standing to sue for injuries caused by EC subsidized exports of boneless manufacturing beef and that cattle producers were part of the industry producing fresh beef.

The contrary decision of the U.S. International Trade Commission has allowed the Canadians to slaughter the swine in Canada and ship the product to the U.S. in the form of fresh, chilled and frozen pork, which is not subject to countervailing duties. The Department of Agriculture stated explicitly in its March Foreign Agricultural Circular on Dairy, Livestock and Poultry that, while imports of swine from Canada in 1986 will decline, imports of pork from that country are expected to increase by 20 percent, an amount, according to USDA, equal to the decline in swine imports which will occur as a result of the countervailing duties.

The Council supports the House's efforts at improvement in agriculture trade in Title VI of H.R. 4800. In addition, the Council supports the language of Section 132 of the bill, dealing with the definition of industry in trade cases involving agricultural commodities. That language reflects the reality that producers and first processors are in essence part of the same industry. We strongly urge the Committee to insure that this language be included in the omnibus trade bill and that such a bill be adopted by Congress. However, the Council points out that certain provisions of the bill may be perceived by our trading partners as protectionist measures. Therefore, the Council asks that the Senate exercise prudence in shaping a final Act this year.

Over the past several years, the European Community has also increased its subsidized exports of processed and, lately, fresh pork into the United States. Given the high internal prices in the EC, it is very likely that these imports to the U.S. are also subject to significant margins of dumping. In addition, the Community has maintained even higher export subsidies for shipments to third countries, including Japan, which are important export markets for U.S. products. As a result of these third country subsidies, U.S. exports have declined dramatically to Japan which the EC exports have increased to that country. These EC practices obviously fall within the purview of the countervailing duty and antidumping statutes in connection with imports, and of Section 301 with regard to the EC's subsidized exports to Japan. Accordingly, the Council is considering the initiation of such cases in order to eliminate the injurious effects of these unfair trade practices.

However, this Committee should insure that, in providing authority to the Administration to begin the next round of trade negotiations in 1987, it is made explicit that agricultural subsidy programs of the Community must be the subject of negotiations and must be reduced or eliminated through such negotiations. Otherwise, the Congress should refuse to approve any trade agreements which would result from the next round of multilateral trade negotiations.

For years the Community has refused to even discuss its Common Agricultural Policy in GATT negotiations, and during the same period it has displaced U.S. sales of many agricultural products in third country markets through extraordinary subsidies. This has, of course, adversely affected not only United States producers, but also producers in other countries which depend on agricultural exports to establish foreign revenue. The United States and other countries have withstood the brunt of these practices for too long. Despite growing budget costs for the Community and minor attempts to slow the rate of growth, the Community and minor attempts to slow the rate of growth, the Community has never demonstrated that it has, on its own, sufficient political will to modify a system which adversely affects trade in the majority of agricultural commodities throughout world markets.

Of course, the EC is not the only country which restricts U.S. exports. The Republic of Korea has simply banned imports of beef and pork into its country, as a result of over production by its own producers. This is a country which derives benefits in excess of $1.5 billion in duty-free trade under the Generalized System of Preferences. As recent shipments of automobiles, televisions, and other electronic products demonstrate, Korea tends to dramatically increase its shipments of products to this country even beyond current levels. It cannot have it both ways. Through bilateral action or multilateral negotiations, the U.S. Government must insist that Korea remove this outright ban on imports of U.S. beef and pork.

Finally, in discussing trade matters of concern to the Council, I certainly did not want to ignore the negotiations with Canada concerning a U.S. Free Trade Arrangement. We would support such negotiations insofar as they would eliminate unreasonable restrictions on trade in agricultural products between the countries. As I pointed out earlier, while Canada depends to a great extent on the U.S. market for export of surplus swine and pork produced in that country, U.S. producers are barred from shipping swine to Canada.

An additional concern to us are indications that the Government of Canada would like to remove U.S.-Canadian trade from the purview of U.S. domestic trade statutes which protect domestic producers from injurious and unfairly traded imports. We would strongly oppose such a measure. We believe Congress should make it clear from the beginning that no such measures will be considered in the negotiations. Domestic producers are subject to strong U.S. antitrust laws; at the same time they benefit from "free trade" in interstate commerce among the states. These U.S. antitrust laws serve to protect producers and consumers in this country. Likewise, there is no reason why free trade in commodities between the United States and Canada should be removed from the discipline imposed by unfair trade practice statutes covering commerce between our countries.

This concludes my testimony this morning. I appreciate the opportunity to appear before you and I would be happy to answer any questions which Committee members may have.

STATEMENT OF RICHARD A. SMITH, GOVERNMENT RELATIONS ADVISOR, HERON, BURCHETTE, RUCKERT AND ROTHWELL

I appreciate the opportunity to testify before this subcommittee on the issue of trade barriers affecting horticultural products.

Exports are of major importance to the United States horticultural industry. Access to foreign markets in the future will be a major component in determining how profitable the U.S. horticultural industry will be. In the past, trade negotiators have not given the priority to this sector of agriculture that it deserves, but it is hoped that in the upcoming Multilateral Trade Negotiations (MTN), high priority will be given to high value products such as horticultural products. The fact that this Subcommittee, and you in particular Mr. Chairman, have provided time to discuss the trade issues surrounding horticultural products is very much appreciated. This is a good beginning to the long process of obtaining important trade concessions in the forthcoming MTN.

It is gratifying to see the strong position the Administration has taken on resolving trade policy issues, and particularly those confronting the horticultural industry. These efforts are starting to show some results. The current negotiations on Meditterean preferences for citrus products into the EEC is a good example of how a strong and determined effort on the part of the Administration and the Congress to resolve the issue appears to finally be forcing the Europeans to seriously negotiate the matter. It will be imperative that meaningful redress be provided by the EEC on oranges and lemons. It continues to appear that the U.S. negotiators will insist on this. Both Ambassador Clayton Yeutter and Secretary Dick Lyng are to be congratulated for the fine effort they and their staffs have put forward in negotiating this import issue together with addressing the EEC Common Agricultural Policy.

During the past few years, U.S. exports levels of horticultural products have been as disappointing as U.S. agricultural exports in general. From the peak level in fiscal year 1981 of slightly over $3 billion, horticultural exports have declined to $2.6 billion in fiscal year 1985. FY 1986 is the first time in five years that there has not been a decline in horticultural exports. Most of the same factors that have affected agricultural exports in general have also had an adverse impact on horticultural exports. The strong dollar made our products more expensive in the world marketplace. This, coupled with a general decline in economic activity, caused world demand to decline over the past several years. Foreign exchange shortages and the debt problem, particularly for the less developed countries, also have taken their toll. Horticultural products were one of the first import items cut back as countries moved to conserve scarce foreign exchange.

An unfair trade practice of particular concern is the increase in subsidized competition into both third markets and into the United States. Subsidized sales by competitors is a major cause of declining horticultural sales to third markets and the dramatic rise in imports of horticultural products into United States. This has resulted in the U.S. horticultural industry losing market share in both the world market and at home.

Exports are a major source of income for several key sectors of the horticultural industry. For example, the United States exports about 60 percent of its almond production, 40 percent of fresh lemon production, 20 percent of fresh orange production, between 15 and 20 percent of raisins and between 34 and 40 percent of walnuts. Overall, about 10 percent of total U.S. horticultural production is exported.

Total horticultural exports are made up of many products. No one product accounts for the same level of exports as key grains or soybeans. However, in the aggregate horticultural products are expected to total $2.7 billion in FY 1986 or almost 10 percent of total U.S. agricultural exports. It is therefore important to the U.S. economy that horticultural exports be expanded. The policy context in which trade is carried out in the world market will be critical to the achieving of this goal.

During the forthcoming trade negotiations, it will be important to the future of the U.S. horticultural sector that the United States give priority to the removal of many trade impediments that now bar the imports of American horticultural products into key overseas markets. The horticultural industry will be working closely with U.S. trade negotiators to make sure that the priority issues are high on the agenda for the MTN. If progress is made toward removing trade barriers a significant increase in U.S. horticultural exports would result.

For example, the custom duties for Japan for fresh oranges should be reduced to the level of the United States. Japan's custom duties for fresh oranges are 40 percent ad valorem from December through May and 20 percent ad valorem from June to November. The United States is a significant producer of oranges, just as Japan is a significant producer of tangerine-type oranges. Yet, the ad valorem equivalent of the U.S. custom duties for fresh oranges in calendar year 1984 was 5.1 percent or approximately one fourth of Japan's during June to November, and about one eighth during the remainder of the season. Currently, imported oranges are so expensive in Japan, that their use is limited essentially to that of a gift. In order to expand the demand for the product, its price must be lower. Harmonizing the customs duties of Japan with that of the United States for fresh oranges, would help accomplish this objective.

In addition, the custom duties of Japan for fresh lemons and fresh grapefruit, should be eliminated, since Japan does not produce these products.

If these tariff restrictions plus other quantitative restrictions were removed on imports of oranges into Japan, the California/Arizona citrus industry sales would be increased by $50 million dollars per year.

Another example of an unfair trade restriction is almond exports to India which have been severely restricted by high tariff and import licensing requirements. It is estimated that removal of these trade barriers would result increase U.S. exports valued at over $30 million in the next five years. The current ad valorem duty on shelled almonds is a prohibitive 219 percent while the in-shell almond tariff is 121 percent. These tariffs deny equitable and reasonable access, particularly for shelled walnuts.

Under South Korea's import schedule, avocados are an item subject to "recommendation". In other words, they must be approved by the Ministry of Agriculture and Fisheries prior to importation. Approval is never granted on avocados. Korea's justification for this absolute denial of access is unknown. The product is not grown in Korea. Our industry believes that there is a sizable consumer interest in the product. Given the large trade deficit the United States has with Korea, one would expect that on an item such as avocados where there is no domestic opposition to its imports, that the Korean government would liberalize its product. In addition to the absolute restriction on imports there is a 50 percent ad valorem tariff rate applicable to avocados. If these restrictions were removed, the industry believes that avocado imports into Korea would reach 25 to 30 million pounds very shortly.

In the case of Canada, trade barriers to U.S. canned fruit exist resulting from restrictions on the size of containers permitted for such fruit. Specifically, the normal size 303 cans are prohibited for Canadian imports. Although the 300 can size is permitted access, the United States produces only a small pack in this size can. It would be very costly for U.S. canners to install special canning lines for Canadian shipment and, as a result, significant potential sales to Canada are lost each year. In addition to the can size restrictions, there is a 13 percent duty on canned peaches and 10 percent duty on fruit cocktail entering Canada. Canadian labeling laws require printing to be done in both English and French. It is felt that these impediments are unnecessary and their removal would substantially increase U.S. canned fruit sales to Canada.

Mr. Chairman, these are a few examples of the kinds of barriers that exist throughout the world that adversely impact on the United States' ability to ship horticultural products overseas. Although the results of each of these specific actions are small in relation to our total agricultural exports, together they amount to a significant volume in trade. High value commodities create employment in the United States. Consequently a priority should be placed on expanding their sales overseas.

Renegotiation of the GATT Subsidy Code during the MTN is considered of the highest priority by the horticultural industry. As I previously indicated, the use of subsidies by many of our competitors has provided them with an unfair advantage in both third markets and in the United States. Imports of horticultural products into the United States have increased 71 percent in value since 1980. During this same period, U.S. horticultural exports have been declining steadily. Although the strong dollar can be credited for part of the increase in imports, subsidies have played a major role for some key products. For example, in the case of apple juice, U.S. imports were valued at $122 million in 1984 and reached an all time high of 635 million liters single strength equivalent, up 12 percent from 1983. One of the principle suppliers of imported apple juice is Argentina, which provides its exporters an export subsidy if juice is exported from certain ports. Most Argentine apple juice exports move from the southern ports (Patagonia area) which are all eligible for the export subsidy. This subsidy is in the form of a tax rebate, which while currently is 6 percent but has been as high as 12 percent.

Another group that has suffered from subsidies is the American canned fruit industry. At one time the United States was the world's largest exporter of canned fruits and was a major supplier to Europe. With the advent of processor subsidies instituted by the European Community in 1978, the United States started experiencing intense competition from Europe. Today the U.S. export market is limited to Canada and some Pacific Rim countries. In the case of Canada, that market is rapidly decreasing due to the stiff subsidized competition from the EEC. Six years ago, the U.S. industry was exporting almost one million cases of canned fruit to Canada and this year shipments are expected to total only 125,000 cases. Imports of canned fruit into the U.S. from the EEC are also up, reducing U.S. canners' share of their own domestic market.

The United States horticultural industry has traditionally supported the concept of free trade and believes in comparative advantage. However in recent years the use of export subsidies by competitors has totally altered the balance of trade, adversely affecting the U.S. industry. As the data indicates, U.S. imports of horticultural products has shown a dramatic increase while at the same time, horticultural exports have decreased. In order to turn this situation around, it is critical that the rules established under the Subsidies Code be tightened to eliminate the use of unfair subsidies. It is also important that the dispute settlement procedure established under GATT be streamlined and allowed to operate more efficiently. It currently takes too long to get a case adjusted by the GATT and remedial action taken. It has taken 17 years to get the EEC Mediterrean preferences for citrus to the point where it appears some action may be taken by the EEC to address the findings of the GATT panel.

Another area that needs to be given top priority in the upcoming trade negotiations is the issue of uniform standards relative to plant and animal quarantine and other health regulations. Quarantine regulations and health standards are becoming more important as barriers to the export of horticultural products from the United States.

From time to time such standards have been used as barriers to restrict the imports of cherries, citrus, nuts, apples and many other horticultural products.

For example, in 1976 Japan refused to permit any citrus to enter that included residues of OPP. At that time, the U.S. citrus industry suffered extensive export losses due to this policy. Two years passed before Japan registered OPP for use on citrus. The companion chemical with which the industry was having similar trouble at that time, TBZ (Thiabendazole), was registered about a year later.

Some elements of the scientific community in Japan have refused to accept the safety of OPP and TBZ despite the approval on the materials by the Food and Agricultural Organization of the United Nations (FAO), the World Health Organization, and other developed countries in the world. This has resulted in continuing scrutiny of citrus imports.

Another example of how quarantine regulations can adversely affect trade is the case of citrus in Korea. The Korean government recently announced the quarantine on United States citrus. The quarantine is a result of unilateral determination by Korean officials that California is infested with the Mediterrean fruit fly. This action was taken despite the fact the United States and all other citrus producing and importing countries have found no evidence that a Mediterrean fruit fly outbreak is present in the United States. Since oranges are denied access under the Korea's import schedule, the adverse effects of the quarantine have been limited to lemons. As a result of the quarantine, shipments of California/Arizona lemons are now only permitted to enter Korea if they have been treated. The available approved quarantine treatment renders lemons unmarketable.

Again in the case of Japan, the Latania scale fumigation requirement for avocados is unreasonable. Latania scale is a type of pest that appears on avocados and other fruit. For the past few years, Japan has required hydrogen cynanide fumigation of California avocados for the alledged pupose of preventing the spread of Latania Scale. Fumigation is required despite the fact the fumigation has already been conducted in the United States. The basis for requiring double fumigation is not clear since the pest is not alive on the U.S. fruit and, more importantly the pest is already commonly found on Japanese fruit. Double fumigation substantially diminishes the quality and shelf life of the California product. This, in turn, adversely affects consumer interest in California avocados. Despite bilateral negotiations on this issue, double fumigation is still being required of all California avocados shipped to Japan.

The above examples of how health and quarantine issues can become a major deterrent to U.S. agricultural horticultural exports. These are only a few examples as there are many instances in key markets around the world where health and quarantine regulations have become major trade barriers. It will be important in the upcoming negotiations to set uniform standards for all GATT members so that trade can continue and not be stiffled by unreasonable regulations.

Mr. Chairman, I have tried to lay out in a short period of time the major issues that are important to the United States' effort to expand exports of horticultural products. There is a great potential throughout the world to increase our horticultural exports but in order to accomplish this, it will be necessary to see significant progress in removing trade barriers. We are optimistic that in the forthcoming trade negotiations high priority will be given to negotiating better conditions of access for our horticultural products. We look forward to working with the Administration and the Congress in achieving this goal.

Before I close, I would like to briefly comment on a program that was incorporated in the 1985 Farm Bill that I believe is having much success and has the potential for even greater success. In this day and age when everyone appears to only see the negative side of trade and agricultural policy, I believe it's important to point out when something is going right. I am referring to the TEA program which provided funding in the form of PIK certificates for market development of agricultural products overseas. The U.S. horticultural industry has taken advantage of this program and instituted advertising and promotion programs in many key overseas markets. The California Cling Peach industry, for example, is using this program in Japan and the results have been dramatic. For the past five years, our exports to Japan of canned fruit were on the decline. As a direct result of the promotional efforts instituted using the TEA funds this past year, there has been a complete turn around in our exports to Japan. Canned peach sales to Japan for the 11 months ending April 1986 are 73 percent ahead of the same period last year. Fruit cocktail sales in Japan have shown a 29 percent increase over last year. Frozen peach sales are expected to more than double increasing from 300 tons last year to 700 tons this year. In Taiwan, too, fruit cocktail shipments are up 21 percent and canned peach sales have grown by 5 percent over the previous year. These results have provided a new optimism that the U.S. industry's recent displacement in major world markets due to EEC subsidization can be reversed. I am convinced the same will be the case with other horticultural products as the promotional programs get underway around the world. The TEA program is a good example of how the U.S. can start fighting back to regain loss markets. The Congress and the Administration are to be complimented for moving agressively on this front.

Mr. Chairman it has been a pleasure to testify before this committee and I look forward to continuing to work with you on trying to expand American agricultural exports. Thank you.

JULY 29, 1986 HEARING

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, I am pleased that the Subcommittee is examining the influence of last year's farm bill--the Food Security Act of 1985--on agricultural trade. In the 1985 farm bill, Congress provided the administration ample authority to boost farm export sales, including the Export Enhancement Program. If these authorities are not adequate, I would hope the administration would request any needed changes.

Last year, Congress set certain goals for the new farm legislation. Among the most important were increasing agricultural exports and maintaining farm income, while reducing the cost of farm programs for taxpayers.

Unfortunately, the administration has not fully implemented these new export authorities. As a result, agricultural exports have continued to decline sharply, farm income is stagnant, and program costs are at astronomical levels.

The failure to act decisively to increase export sales of farm products can be seen in the Department of Agriculture's recently released grim statistics on foreign agricultural trade. In the first 7 months of fiscal year 1986, U.S. agricultural exports fell $4.1 billion in value, to $17.3 billion. Export volume contracted 14.5 million tons to 72.3 million tons--a 17 percent decline from those of the same period in fiscal year 1985. Feed grain export sales were down by 12.3 million tons--which represents a decline of 31 percent in volume, valued at almost $3 billion. Wheat exports declined by 5.2 million tons, a loss of nearly $1 billion.

The administration states that the objectives of the export enhancement program conflict with U.S. foreign policy objectives. I disagree. The administration's foreign policy is based on being strong. That policy could wisely be applied to its agricultural policy. It is time for this administration to adopt a "get tough" attitude in world markets and help our agricultural exporters regain their fair share of foreign trade. The American farmer cannot wait any longer.

Mr. Chairman, Congress established programs to help stem these devastating losses of export sales in the 1985 farm bill. We have modified those programs to accommodate the administration's desire to maintain flexibility in export sales promotion programs.

Nebraska farmers wonder why the administration has been so bashful about using existing authority. I think it's time we held a hearing on "The Lack of Impact of the Food Security Act of 1985."

Mr. Chairman, I hope today's testimony will indicate to the Committee what we need to do to prod the administration to take action. Thank you.

STATEMENT OF HON. HOWEL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I am certainly pleased that the Subcommittee is focusing on the impact of the Food Security Act of 1985 on our agricultural trade. This is one issue that needs to be examined in some detail.

The Food Security Act of 1985 was supposedly designed to get the U.S. competitive and regain our traditional share of the world markets. Yet, the Commerce Department reports that our agricultural trade situation is the worst that it has been in three decades.

Failure to increase farm exports immediately has been blamed on world-wide economic conditions, high commodity prices, and the over valued dollar. I no longer accept these arguments. USDA stated last year that it did not have the sufficient tools to actively compete in world markets. I no longer accept this argument. The Department stated last year that it did not have the necessary flexibility to meet the competition head on. This is no longer the case.

The Secretary of Agriculture now has more discretionary authority than ever before to utilize more new tools than ever before. In his trade tool chest, he has the export enhancement program, targeted export assistance, expanded PL-480 in Food for Peace and Food for Progress programs, and the marketing loan for all commodities. The Department has the authority, but it has not taken an agressive approach to our farm export position.

Mr. Chairman, I hope the witnesses today can shed some light on this matter. I look forward to hearing and reviewing their testimony.

Thank you, Mr. Chairman.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, as the ranking member of the Subcommittee on Foreign Agricultural Policy, I am pleased to welcome our witnesses this morning to our series of hearings addressing the problems of declining U.S. agricultural exports.

Our hearing today will focus on the impact that the 1985 farm bill has had on world agricultural trade. I note that we will hear from Michael Hall, Executive Vice President of the National Corn Growers Association. I hope that he will take some time to make my colleagues aware of the serious difficulties our nation's corn growers face in light of the problem we have in Canada with the Ontario Corn Producers.

The Ontario Producers have filed suit against the United States, citing more than sixty subsidies authorized by the 1985 farm bill. Mr. Chairman, the farm bill is on trial in Canada. If the Ontario Corn Growers prove to their government that the United States is subsidizing its corn going into Canada, it will set a negative precedent for all of our trading partners. While the suit deals only with trade in corn, all of our other commodities are in jeopardy. How many more times can our farmers be expected to bear the burden of our administration's trade policies? For the sake of the American farmer, the administration should play a greater role in defending its agricultural policies.

Mr. Chairman, I urge the administration to put its resources to use immediately to defend our nation's agricultural sector.

Thank you, Mr. Chairman.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, again, I must commend the distinguished Senator for holding this series of hearings in preparation for the GATT. The growing tension between the United States and the EC over agricultural commodities only serves to emphasize the need for serious and constructive reform during the upcoming round of trade negotiations. To that end, these hearings are of great use.

Today's topic is of particular importance. World trade of agricultural commodities has, as I have just noted, become a sticking point for relations with many of our closest allies. World agricultural trade, in addition, is of critical importance to the extent that increased exports are an absolute necessity to the success of the 1985 Farm Bill. In passing this legislation we sent two clear messages. First, we let our competitor nations know that we will not allow foreign governments to subsidize their agricultures at the expense of American farmers. Our farmers can compete with any farmers in the world. We made it apparent that we are willing to take whatever steps are necessary to provide our farmers with fair market access.

Second, we promised our own farmers that we will commit ourselves to expanding exports of our agricultural commodities. We reduced target prices and loan rates for all program commodities in the realization that we were priced out of the world market. Increased export volume, it follows, would maintain or raise farmer's income, and to insure this we put in place many programs for enhancing exports. This was a radical change in a long history of agricultural legislation which, for the most part, ignored world market realities.

But the initial response to the new legislation, if anything, has been underwhelming. In May, farm imports exceeded farm exports, which has not happened since 1959. The Department of Agriculture predicts an annual agricultural surplus in 1986 less than one-third of that of 5 years ago. Considering that we have the most efficient and most advanced agricultural system in the world, I find this not a little paradoxical.

When we passed the Food Security Act of 1985, we were fully aware, or at least should have been fully aware, that there would be a lag between the reduction in commodity prices and the resulting benefits of increased agricultural exports. Many countries have put off making new purchases of U.S. commodities until the next round of target price and loan rate reductions go into effect. For the largest benefits of the 1985 Farm Bill reforms, we will simply have to wait.

But this is not to say that we will have to wait idly. Much of American agriculture is in the throes of a full fledged depression, and we can ill afford to do so. As I just pointed out, we included in the Farm Bill several provisions which can be used, in coincidence with existing programs, to stimulate agricultural exports. In addition to reauthorizing emergency food and development assistance programs, we authorized the use of surplus commodities in international programs; we expressed the sense of the Senate that we should expand agricultural trade with the People's Republic of China; we authorized Targeted Export Assistance; we provided for short-term export credit; we provided for intremediate-term export credit; we established an Export Enhancement Program; we renewed our support for the Cooperator Market Development program; we stated as policy that we should "counter aggressively unfair foreign trade practices using all available means." It is clear to me that we have at our disposal the tools to improve our standing in the world market.

My distinguished colleague from California, Senator Wilson, astutely asserted in the lasted Congressional Quarterly that we "must be willing to 'pick up heavy clubs and swing them,'" in response to foreign protectionism. I can only echo those thoughts and add that we must take this same attitude toward expanding agricultural exports. While we must be aware of the effects of our actions on Third World debtor nations, and upon our relationships with competitor nations, we must not desert the American farmer. We must use what influence we have to complete the appropriate bodies to use the tools that we have given them to expand the volume of agricultural exports.

The direct benefit of acting aggressively goes to the farmers of our country. In doing this, however, we will also be gaining leverage in the GATT. By conveying our seriousness about this issue through aggressive action we can force agriculture to be placed on the negotiating agenda, and perhaps make some real progress towards achieving the market equity our farmers are being denied.

Again I commend the distinguished Senator for holding this hearing and look forward to the testimony of the witnesses you have called.

STATEMENT OF THOMAS O. KAY, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss with you the Administration's efforts to implement the Food Security Act export provisions and the impact of those programs on world agricultural trade.

The lower loan rates in the Food Security Act and the new and expanded programs brought about by that legislation will make U.S. agricultural products more competitive as their impacts begin to be felt in the market place.

Potential buyers now are holding back on their purchases, waiting for new crop prices to go into effect. The situation is further clouded by the continued speculation about possible changes in the farm program. In the short-run it is extremely difficult to make significant changes in the world trade environment, but we expect that the new farm program will bring positive changes for U.S. farmers in terms of future sales.

To ensure that this happens, we are working diligently to carry out a wide range of programs designed to meet subsidized competition, develop new markets, and provide food assistance to deficit countries.

When fully in place, these programs will provide approximately $8 billion worth of government assistance to boost farm sales overseas, nearly a third of the projected value of U.S. agricultural exports in fiscal 1986.

A number of provisions of the Food Security Act were clearly designed to address major trade policy issues which the United States has with its trading partners, especially the European Community.

Under the Export Enhancement Program, we are using CCC-owned commodities as export bonuses to make U.S. commodities more competitive in the world market, and to offset the adverse effects of unfair trade practices.

We expect that most of the initiatives announced to date will be utilized this year. That means we will have used $500 million for this program—half of the total amount that Congress instructed us to use over the three years the program is authorized.

Since the Export Enhancement Program was initiated, close to 12 million tons of commodities have been designated for specific countries. This represents close to a tenth of the projected volume of all U.S. agricultural exports in fiscal 1986, including almost a third of the projected level of U.S. wheat sales. The program has allowed U.S. grain exports to replace European Community sales in key markets, particularly in North Africa and the Middle East.

Under the new Targeted Export Assistance Program, we are working to help U.S. exporters counter the effects of unfair trade practices by foreign competitors or importers. More than $60 million already has been allocated to U.S. producers to promote wood, peaches and fruit cocktail, potatoes, walnuts, raisins, wine, prunes, citrus, dried beans, grapes, wheat, Washington apples, poultry and eggs in markets around the world. A number of other proposals are pending and we plan to use the full $110 million allocated for Targeted Export Assistance this year. We have had reports from the industry that some of the first programs approved already are reaping benefits in increased exports.

We also have been working aggressively to ensure that the credit needs of potential buyers are met. The value of credit guarantees authorized to date for this year under the Export Credit Guarantee Program (GSM-102) represents 14 percent of the projected value of total U.S. agricultural exports in fiscal 1986. The share is higher for U.S. grains--52 percent for rice; 37 percent for wheat; and 16 percent for feed grains.

We are implementing the new Intermediate Export Credit Guarantee Program, with 3- to 10-year payment guarantees. FAS has worked closely with the U.S. financial community and with prospective clients to develop rules to implement and administer this program. Last week, on the day that our regulations were finalized, we had a sales team in Mexico to explain the program and to encourage its use. We are working with over 20 countries to promote dairy cattle exports with guarantees for $175 million worth of intermediate credit.

Several new export initiatives are tied to the implementation of the Milk Production Termination Program. USDA was directed to purchase 200 million pounds of red meat for export during the 18-month program. We have already sold close to that amount of beef to Brazil and we are working to provide meat to the Department of Defense and to sell beef to the European Community.

We are working to implement a new Dairy Export Incentive Program and we have been selling CCC-owned dairy products overseas as required by the Act. We have sold over 127,000 tons of non-fat dry milk and butteroil to Brazil, Mexico, Austria, and Israel this fiscal year.

The Act also added new activities to one of our oldest export assistance programs--P.L. 480. We are launching a new Local Currency Initiative under P.L. 480 to generate economic growth via the private sector in recipient countries.

To achieve this goal, sales of U.S. farm products for local currency have been reinstated. These local currencies, which will be owned by the U.S. government, will be used by the private sector in Title I countries. Procedures for this new program are being developed and it should be underway by the end of this fiscal year.

Another new effort, Food for Progress, will program at least 60,000 tons of commodities this fiscal year to needy countries--mainly in Africa--to encourage agricultural reform. This will be in Section 416 commodities.

We have also expanded the list of Section 416 commodities to meet the established annual availability levels of 500,000 tons of grains and oilseeds and 150,000 tons of dairy products.

The new programs, in combination with our other on-going market development, market information and trade policy work are being administered aggressively in order to help put U.S. farm exports back on the right track.

One of the most important aspects of the legislation in terms of export sales, will be its impact on commodity prices.

With the reductions in U.S. price support levels and the current excess of commodity stocks around the globe, world prices will decline along with the support levels--likely by 25 percent or more. This should encourage imports by many countries.

Lower commodity prices also will curtail the incentive to expand production by many of our export competitors. By increasing U.S. competitiveness, the U.S. share of world trade should increase. Our economists predict that the United States is likely to gain most of the gradual increase in world agricultural trade in the rest of this decade.

Even though we will not see the full effects of the Food Security Act until new prices actually take effect this fall, the Act has already evoked strong reactions from other nations. Clearly, we have their attention.

Much of that attention is focusing on what we hope is a short-run situation--the sharp reduction in market prices, compensated by heavy domestic payments and supported by aggressive export programs. Many countries view these policies as just as predatory as those we have criticized in others.

The first responses from other major agricultural producers indicated that they would stand firm and fight--at any cost. It now appears that our competitors are reevaluating their positions. Around the world, production policies are changing, farmers are changing their production mix, and markets are being redefined. Our competitors are vocally criticizing our pricing policies. Their reactions show a definite realization that the United States is serious in its efforts to regain its share of the export market.

Canadian farmers have increased their planted wheat area to counter lower prices. The EC is reviewing its Common Agricultural Policy, but has also increased its subsidies. Australia has loudly complained about the Act and is moving aggressively to keep its markets. Argentina has moved to support grain farmers' income levels with several relief measures and also has cut its prices to stay below ours. Thailand is attacking what it calls the protectionist policies of the United States. Brazil is focusing on producing food grains for its domestic market as well as trying to maintain soybean production for exports to generate hard currency.

These countries are not accustomed to tough U.S. competition. They fear that our more aggressive posture will at the very least prove expensive for them, if not cost them markets altogether.

Implementation of the Food Security Act has also contributed to an increased interest in trade negotiation. As a result of U.S. determination to be aggressive and to return to market-oriented policies, we are entering the new round of negotiations with more reason to be optimistic than ever before.

Under Secretary Amstutz will be meeting with the full Committee next week to discuss our goals for the new round.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions you have.

[The following material was inserted by Thomas Kay, Administrator, Foreign Agricultural Service, USDA:]

AGRICULTURAL EXPORT ASSISTANCE UPDATE

(Prepared by the Foreign Agricultural Service
U.S. Department of Agriculture, July 1986)

Public Law 99-198, the Food Security Act of 1985, was signed into law on December 23, 1985. Among its 17 titles was an extensive title dealing with trade--Title XI. This title contains a number of provisions designed to meet subsidized competition, develop new markets, and provide food assistance to deficit countries. It includes reauthorizing such longstanding export assistance programs as Public Law 480 (Food for Peace) and establishing the Targeted Export Assistance Program. It also provided continued support for several export assistance programs such as short-term export credit guarantees (GSM-102) and the Export Enhancement Program, which was initiated as a result of budget negotiations in May 1985. The bill also mandated an intermediate credit guarantee program, a new export assistance program to promote the export of meat and dairy animals, and a pilot barter program.

Once enacted into law, it became the responsibility of the U.S. Department of Agriculture to implement and administer all of these export assistance programs. Within USDA, the Foreign Agricultural Service (FAS) has the lead role in developing and executing the programs and initiatives outlined by Congress in Title XI. In this context, FAS is working on many fronts to bring the wide array of programs into operation. When fully operational, these programs will provide approximately $8 billion worth of government assistance to facilitate increased agricultural exports. This amounts to nearly a third of the projected value of U.S. agricultural exports in fiscal 1986.

Longstanding Programs

The Food Security Act of 1985 reauthorized and added new activities to one of the oldest U.S. export assistance programs--Public Law 480, Food for Peace. Thus far in fiscal 1986, agreements under the P.L. 480, Title I program have been signed with 29 countries. Seven commodities valued at $771 million are covered by these agreements. Seven other agreements and amendments to agreements--covering commodities worth $87 million--are also in the negotiating stage.

The Farm Bill authorized a new activity--the Local Currency Initiative--under the authority of Public Law 480 to generate economic growth via the private sector in recipient countries. To achieve this goal, sales of U.S. farm products for local currency have been reinstated. These local currencies, which will be owned by the U.S. government, will be loaned to private financial intermediaries in the Title I countries, who will then re-lend them to the local private sector. The procedures for this new program are being developed and country programs may be underway the end of this fiscal year or early next year.

Another new program, Food for Progress, is to be carried out using the authority of P.L. 480 or Section 416. The program will provide commodities to needy countries--mainly in Africa--to encourage agricultural reform. Negotiations are already underway for two Food for Progress programs and agreements may be signed shortly. These agreements will provide at least 60,000 metric tons of Section 416 commodities.

The Farm Bill includes several major amendments to Section 416 of the Agriculture Act of 1949. It expanded the list of eligible commodities to include all edible commodities held by the CCC. The USDA announced on July 17 that 500,000 tons of grains and oilseeds and 150,000 tons of dairy products will be made available this year for shipment to needy countries.

Commercial Export Credit Programs

The Food Security Act of 1985 also makes available $5 billion annually for the Export Credit Guarantee Program (GSM-102), which has been in operation since 1980. This program guarantees repayment of short-term loans made to eligible countries that purchase U.S. farm products. Through mid-July, FAS has announced the availability of $4.2 billion worth of short-term guarantees for 25 countries and 29 commodities. The value of the guarantees authorized represents 15 percent of the projected value of total U.S. agricultural exports in fiscal 1986. However, the share is higher for U.S. grains--52 percent for rice, 37 percent for wheat, and 16 percent for feed grains.

The Food Security Act of 1985 also specified that $500 million be made available for implementation of an Intermediate Credit Guarantee Program (3 to 10-year loans). This program is designed to help developing nations make the transition from concessional to cash customers. FAS has been working closely with the U.S. financial community as well as prospective clients of this program to develop workable rules for the implementation and administration of this program. The final rule was published on July 24. Several country programs should be announced shortly.

Programs To Counter Unfair Foreign Trade Practices

The Food Security Act of 1985 endorsed several export assistance programs implemented by USDA in recent years specifically to counter or offset the adverse effects on U.S. agriculture of unfair trade practices on the part of competitors.

The Export Enhancement Program, announced by USDA in May 1985, was extended through 1990 by the 1985 Act. As later amended in March 1986, USDA is authorized to use at least $1 billion worth of CCC-owned commodities as export bonuses through fiscal 1988 to make U.S. commodities more competitive in the world marketplace, and to offset the adverse effects of unfair trade practices or subsidies.

Since the Export Enhancement Program was initiated last year, 40 initiatives have been announced with 22 countries. Around 12 million tons of commodities, including 10.3 million tons of wheat and wheat flour, 1.3 million tons of barley, 250,000 tons of semolina, 150,000 tons of poultry feed, 100,000 tons of barley malt, and 40,000 tons of rice have been designated for specific countries. In addition, the program has also included 500 million table eggs, 43,000 tons of frozen poultry, 38,000 dairy cattle, and 25,000 tons of vegetable oil.

The volume of the 11 commodities covered by these export enhancement initiatives represents roughly a tenth of the projected volume of total U.S. agricultural exports in fiscal 1986, including almost a third of the projected level of U.S. wheat sales. The book value of the bonuses offered so far through the fiscal year was $294.3 million, more than five-sixths of the $333-million target for the first year of the three-year program.

The Targeted Export assistance Program, mandated in the Food Security Act of 1985, is another program in which the administration is directed to assist U.S. exporters in countering the effects of unfair trade practices on the part of foreign competitors or importers. The new program provides that financial support may be in the form of either cash or commodities--the latter is the new feature. A support level of $110 million is specified for each fiscal year through 1988, and $325 million annually in the succeeding two years. Through July 28, FAS had announced 16 targeted export assistance programs for 21 commodities.

Meat and Dairy Export Programs

Several new export initiatives outlined in the 1985 Farm Bill are tied to the implementation of the Dairy Termination Program. The Food Security Act directed the USDA to purchase 200 million pounds of red meat for export during the 18-month duration of the program.

Through July 28, 1986, USDA had sold 198.4 million pounds (90,000 metric tons), carcass weight equivalent, of beef to Brazil. It had also agreed to provide the Department of Defense with up to 44 million pounds (20,000 metric tons) of red meat between July 1, 1986, and October 1, 1987, to supply military commissaries overseas. Discussions continue between USDA and the Defense Department regarding delivery periods and specifications.

In addition, USDA has invited European importers to bid for 10,000 tons of high-quality U.S. beef under the annual quota available to the United States in the European Community. All bids under the first round of invitations were rejected; however, a second invitation has been issued and bids under this round are currently under review.

Other actions taken by USDA to offset the impact on red meat supplies include the announcement of export enhancement initiatives for 41,000 head of dairy cattle to eight countries and the authorization of more than $170 million in GSM-102 credit guarantees to several countries for the purchase of dairy breeding stock.

The 1985 Farm Bill encourages USDA to use at least 15 percent of export enhancement bonus funds or commodities to promote the export of poulty, beef, pork or meat product exports. Thus far, export bonuses worth $18.7 million have been provided to promote the sale of 28,000 metric tons of poultry to Egypt. An Export Enhancement program for an additional 15,000 metric tons of poultry to Egypt was announced in early July.

The 1985 Farm Bill also directs the export of at least 300,000 tons of surplus CCC-owned dairy products annually. The Dairy Export Incentive Program mandates that CCC operate a program during February 21, 1986, and September 30, 1989, and make payments (either in cash or CCC-owned commodities) on a bid basis to entities that sell U.S. dairy products for export. Export sales under the program must be additional and not displace commercial export sales. A Federal Register notice was issued on March 3, 1986. FAS is still in the process of developing this program.

The Mandated Dairy Sales Program requires that in each of fiscal years 1986-1988 the CCC export not less than 150,000 metric tons of CCC-owned dairy products. These CCC sales cannot disrupt domestic U.S. markets or world prices and patterns of commercial trade. Thus far this fiscal year under this provision, 124,700 tons of nonfat dry milk and 3,000 tons of butter/butter oil have been sold.

The 1985 Farm Bill encourages the development of barter arrangements with other countries. Specifically, the bill states that the Commodity Credit Corporation should, if requested by the Secretary of Energy, make available $300 million in CCC-owned agricultural commodities annually over the next three years to acquire petroleum products abroad for the Strategic Petroleum Reserve.

In summary, the export provisions contained in the Food Security Act of 1985 are facilitating the movement to overseas destinations through commercial channels of a significant quantity of U.S. farm products. However, most U.S. agricultural exports--nearly $20 billion or over two-thirds--are moving without government assistance.

The goal of the 1985 Farm Bill, despite the many export assistance programs it authorizes, is to promote larger U.S. agricultural exports while reducing the need for U.S. government assistance in coming years. While it also provides programs to counter unfair foreign trade practices, the bill's market-oriented approach to trade reflects the belief that government export assistance programs cannot replace the need for U.S. agriculture to be price competitive in the world market.

PUBLIC LAW 480 TITLE I(III)

The status of USDA's Food for Peace Program as of July 23, 1986, was as follows, with volume in metric tons:

DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
July 16, 1986	Wheat	55,000	Kenya
	Rice	11,000	
July 14, 1986	Cotton	25,000 bales	Ghana
	Rice	5,000	
July 11, 1986	Feed grains	56,000	Tunisia
July 2, 1986	Wheat	92,000	Guatemala
	Vegetable oil	12,000	
June 20, 1986	Wheat	48,000	Ecuador
June 20, 1986	Wheat	267,000	Philippines
June 6, 1986	Wheat	93,000	Jamaica
	Feed Grains	73,000	
	Rice	28,000	
June 5, 1986	Wheat	78,000	Haiti
	Oil	12,000	
June 2, 1986	Wheat	250,000	Indonesia
May 27, 1986	Wheat	178,000	Morocco
May 23, 1986	Wheat	37,000	Zambia
	Oil	7,000	
May 19, 1986	Oil	120,000	Pakistan
May 5, 1986	Wheat	18,000	Sierra Leone
	Rice	9,000	
April 28, 1986	Rice	48,000	Liberia
April 14, 1986 (amended 7/9/86)	Wheat	34,000	Mozambique
	Feed Grains	29,000	
	Rice	10,000	
April 9, 1986	Wheat	180,000	Bolivia
March 15, 1986	Wheat	86,000	Honduras
	Tallow	5,000	
Feb. 27, 1986	Wheat Flour	20,000	Somalia
	Rice	20,000	
	Oil	15,000	
	Wheat	9,000	
Feb. 18, 1986	Rice	13,000	Yemen
Jan. 26, 1986 (amended 7/16/86)	Wheat	249,000	Sudan
	Wheat Flour	66,000	
Jan. 3, 1986	Rice	20,000	Guinea
Dec. 20, 1985 (amended 6/27/86)	Wheat	148,000	El Salvador
	Tallow	39,000	
	Oil	18,000	
Dec. 17, 1985 (amended 7/3/86)	Rice	42,000	Senegal

-more-

DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
Dec. 10, 1985	Wheat	308,000	Bangladesh
	Rice	35,000	
	Cotton	33,000	
	Oil	16,000	
Nov. 29, 1985	Wheat	120,000	Costa Rica
	Feed Grains	10,000	
Nov. 27, 1985	Wheat	100,000	Zaire
	Cotton	22,000	
Nov. 12, 1985	Wheat	1,038,000	Egypt
	Wheat Flour	519,000	
Oct. 23, 1985	Wheat	193,000	Sri Lanka
Sept. 27, 1985	Rice	14,000	Madagascar
	Oil	6,000	
	Total:	4,881,000	

SECTION 416 TRANSACTIONS

Transactions under Section 416 during the period of December 23, 1985, and July 28, 1986, were as follows in metric tons:

Regular Section 416 Program

Country and/or Organization	
Mexico	46,167
Guatemala	24,000
Ethiopia	21,113
Tunisia	8,843
Chile	6,806
Haiti	6,002
Mauritania	5,000
Dominican Republic	3,867
Poland	2,543
Jamaica	2,143
Costa Rica	1,600
Haiti	425
Subtotal	128,449
World Food Program	
Pakistan	3,634
Nepal	1,800
Guatemala	1,000
Mali	453
Cape Verde	360
El Salvador	255
Honduras	145
Mauritania	80
Benin	55
Saotome	30
Dominican Republic	28
Bhutan	25
Senegal	20
Subtotal	7,885
Total	104,249

CCC Guarantee Program: Payment Guarantee Commitments by Country for GSM-102 throu
July 18, 1986

Country/Commodity (Credit Period)	TOTAL FY 1986 Guarantees
	- - millions of dollars - -
Algeria	7.0
Feed Grains (36)	26.9
Wheat (36)	70.1
Argentina	0.8
Breeder Horses (36)	0.8
Brazil	365.0
Beans, Dry Edible (36)	30.0
Feed Grains (36)	120.0
Potatoes, Fresh (36)	15.0
Rice (36)	50.0
Wheat (36)	150.0
Chile	50.0
Feed Grains (36)	8.0
Wheat/Wt. Flour (36)	42.0
Colombia	100.0
Tallow (36)	4.0
Wheat (36)	96.0
Ecuador	105.0
Animal Milk Replacer (36)	0.5
Breeder Stock (36)	6.0
Cotton (36)	3.5
Feed Grains (Including Malting Barley) (36)	4.0
Planting Seeds/ Nursery Stock (36)	1.0
Tallow/Greases (36)	5.0
Veg. Oils (36)	30.0
Wheat (36)	55.0

CCC Guarantee Program: Payment Guarantee Commitments by Country for GSM-102 throu
July 18, 1986

Country/Commodity (Credit Period)	TOTAL FY 1986 Guarantees
	- - millions of dollars - -
Egypt	367.5
Beef Liver (12) *	4.0
Cotton (24) **	25.0
Cotton (36) **	40.0
Feed Grains (12) *	2.5
Feed Grains (24) **	25.0
Lumber (12) *	2.5
Mullet (12) *	2.0
Oilseeds (12) *	20.0
Oilseeds (24) **	25.0
Tobacco (24) **	35.0
Tobacco (36) **	40.0
Veg. Oils (24) **	25.0
Veg. Oils and Veg. Oil Shortenings(12)*	0.5
Vegetable Protein Concentrates (12) *	1.0
Wheat (36) **	64.0
Wheat Flour (36) **	56.0
El Salvador	8.2
Beans, Dry Edible (36)	1.4
Oilseeds (36)	0.6
Poultry Breeder Stock (Inc. Fertilized Eggs) (36)	1.2
Protein Meals (36)	5.0
Guatemala	25.0
Feed Grains (36)	2.5
Planting Seeds (36)	0.3
Poultry Breeding Stock (including Fertilized Eggs) (36)	0.7
Protein Meals (36)	0.5
Rice (36)	2.0
Tallow (36)	9.0
Veg. Oils (36)	10.0

* Available for private sector purchases.
** Reserved for public sector purchases.

CCC Guarantee Program: Payment Guarantee Commitments by Country for GSM-102 throu
July 18, 1986

Country/Commodity (Credit Period)	TOTAL FY 1986 Guarantees
	- - millions of dollars - -
Haiti	10.5
Lumber (12)	1.3
Planting Seeds (12)	0.2
Tallow/Greases (12)	1.5
Wheat (12)	7.5
Honduras	11.0
Beans, Dry Edible (36)	1.0
Breeder Livestock (36)	1.8
Corn, White (36)	1.5
Oilseeds (36)	1.5
Planting Seeds (12)	2.0
Poultry Breeder Stock (Inc. Fertilized Eggs) (36)	0.2
Protein Meals (36)	3.0
Hungary	37.0
Almonds, Shelled (36)	0.5
Breeding Materials(36)	1.0
Cotton (36)	5.0
Protein Meals (36)	28.5
Soy Protein Products (For Human Consumption) (36)	2.0
Iraq	500.0
Beans, Dry Edible/ Peas/Lentils (36)	15.0
Canned Meat and/ or Vegetables (36)	3.0
Corn (36)	45.0
Cotton and/or Cotton Yarns (36)	8.0
Forest Products (Lumber) (36)	16.0
Hides and/or Skins(36)	4.0
Oilseeds/Protein	

CCC Guarantee Program: Payment Guarantee Commitments by Country for GSM-102 throu

July 18, 1986

Country/Commodity (Credit Period)	FY 1986 Guarantees
	- - millions of dollars - -
Iraq Cont.	
Meals and/or Protein Concentrates of Veg./Animal Origin (36)	45.0
Planting Seeds (36)	12.0
Poultry Meat, Frozen (36)	2.0
Rice (36)	165.0
Soft Drink Concentrate (36)	7.0
Sugar (U.S. Grown & Refined) (36)	20.0
Tobacco (36)	3.0
Veg. Oils and/ or Tallow (36)	25.0
Wheat (36)	110.0
Wheat Flour (36)	20.0
Jamaica	60.0
Cotton (36)	2.0
Feed Grains (36)	9.0
Grape Concentrate (36)	0.2
Hops (36)	0.4
Lumber (36)	8.5
Malt (36)	1.4
Oilseeds (36)	11.0
Planting Seeds (36)	0.5
Protein Meals (36)	2.
Rice (36)	10.
Tallow (36)	3.0
Tobacco (36)	0.5
Veg. Oils (36)	4.0
Wheat/Wt. Flour (36)	7.5
Jordan	90.0
Feed Grains (36)	17.7
Rice (36)	12.0
Wheat (36)	54.0
Undesignated	6.3

CCC Guarantee Program: Payment Guarantee Commitments by Country for GSM-102 throu

July 18, 1986

Country/Commodity (Credit Period)	FY 1986 Guarantees
	- - millions of dollars - -
Korea	535.0
Cotton (36)	270.0
Feed Grains (18)	40.0
Soybeans (18)	50.0
Tallow (18)	20.0
Wheat (18)	155.0
Mexico	900.0
Beans, Dry Edible (36)	66.0
Breeder Livestock (36)	5.0
Breeder/Nonbreeder Livestock (Including Semen, Embryos and Embryo Transplants(36)	50.0
Feed Grains (36) *	288.0
Oilseeds (36)	318.0
Protein Meals (36)	7.0
Tallow (36)	67.0
Veg. Oils (36)	99.0
Morocco	150.0
Wheat (36)	150.0
Pakistan	115.0
Peas, Dry (12)	2.0
Protein Meals of Veg./Animal Origin (12)	8.0
Veg. Oils (24)	60.0
Wheat (36)	45.0
Portugal	310.0
Feed Grains (30)	218.0
Rice (30)	19.0
Wheat (30)	73.0

* Includes corn (white and yellow), sorghum, barley and oats.

CCC Guarantee Program: Payment Guarantee Commitments by Country for GSM-102 throug
July 18, 1986

Country/Commodity (Credit Period)	TOTAL FY 1986 Guarantees
	- - millions of dollars - -
Taiwan	3.0
Livestock, Beef and Dairy (36)	3.0
Tunisia	41.0
Wheat (36)	41.0
Turkey	142.0
Cattle Dairy (36)	3.0
Feed Grains (36)	12.0
Semen (36)	2.0
Tallow (36)	5.0
Wheat (36)	120.0
Yemen Arab Republic	55.0
Feed Grains (36)	5.0
Mixed Poultry Feed (36)	5.0
Sugar (36)	5.0
Wheat (36)	30.0
Wheat Flour (36)	10.0
Yugoslavia	110.0
Cotton (36)	60.0
Hides & Skins (36)	40.0
Protein Meal of Veg./Animal Origin (36)	10.0
TOTAL for GSM-102	4,188.0
TOTAL Guarantees Approved	1,795.7

EXPORT ENHANCEMENT INITIATIVES

The status of USDA's Export Enhancement Program as of July 28, 1986, was as follows in metric tons:

DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
July 28, 1986	Table Eggs	44 million	Hong Kong
July 28, 1986	Dairy Cattle	3,000 head	Canary Islands (Spain)
July 17, 1986	Wheat	100,000	Senegal
July 8, 1986	Poultry	15,000	Egypt
July 8, 1986	Vegetable Oil	25,000	India
June 24, 1986	Wheat	75,000	Jordan
June 24, 1986	Wheat	200,000	Yugoslavia
June 24, 1986	Wheat	500,000	Egypt
June 18, 1986	Poultry	5,000	Egypt
June 17, 1986	Barley	60,000	Jordan
June 17, 1986	Barley	200,000	Israel
May 29, 1986	Dairy Cattle	4,000 head	Tunisia
May 29, 1986	Dairy Cattle	5,000 head	Algeria
May 16, 1986	Wheat	125,000	Sri Lanka
May 15, 1986	Wheat	40,000	Zaire
May 15, 1986	Wheat Flour	30,000	Zaire
May 8, 1986	Wheat	500,000	Turkey
May 7, 1986	Barley	500,000	Saudi Arabia
April 17, 1986	Barley	500,000	Algeria
April 16, 1986	Dairy Cattle	4,000 head	Morocco
April 16, 1986	Dairy Cattle	5,000 head	Turkey
April 16, 1986	Dairy Cattle	6,000 head	Egypt
April 14, 1986	Poultry Feed	150,000	Yemen
April 14, 1986	Wheat Flour	100,000	Yemen
April 10, 1986	Wheat	1,000,000	Algeria
April 10, 1986	Wheat	200,000	Yugoslavia
April 9, 1986	Dairy Cattle	7,500 head	Indonesia
April 8, 1986	Wheat	700,000	Syria
April 7, 1986	Wheat	45,000	Benin
April 4, 1986	Table Eggs	500 million	Algeria
April 4, 1986	Dairy Cattle	6,500 head	Iraq
March 21, 1986	Poultry	15,000	Egypt
March 19, 1986	Wheat	75,000	Jordan
March 18, 1986	Wheat	300,000	Tunisia
Feb. 25, 1986	Wheat Flour	100,000	Algeria
Feb. 11, 1986	Semolina	250,000	Algeria
Jan. 7, 1986	Wheat	150,000	Philippines

-more-

DATE ANNOUNCED	COMMODITY	VOLUME	COUNTRY
Dec. 27, 1985	Wheat	40,000	Zaire
Dec. 10, 1985	Barley Malt	100,000	Nigeria
Dec. 9, 1985	Wheat Flour	150,000	Iraq
Nov. 26, 1985	Poultry	8,000	Egypt
Nov. 18, 1985	Wheat Flour	64,000	Zaire
Nov. 15, 1985	Wheat Flour	100,000	Philippines
Nov. 8, 1985	Rice	40,000	Jordan
Oct. 30, 1985	Wheat	500,000	Egypt
Oct. 16, 1985	Wheat	500,000	Turkey
Sept. 30, 1985	Wheat	1.5 million	Morocco
Sept. 6, 1985	Wheat	100,000	Yemen
Aug. 20, 1985	Wheat Flour	50,000	Yemen
July 26, 1985	Wheat	500,000	Egypt
July 2, 1985	Wheat Flour	600,000	Egypt
June 20, 1985	Wheat	500,000	Egypt
June 4, 1985	Wheat	1 million	Algeria

SUMMARY

Total Grain Equivalent	11,711,780 tons
Eggs	500,000 eggs
Frozen Poultry	43,000 tons
Dairy Cattle	38,000 head
Vegetable Oil	25,000 tons
Total Bonus Value to Date	$294.3 million

Estimated Bonus Quantity

Wheat and flour	1,729.0
Barley	165.7
Corn	105.9
Soybeans	49.8
Rice	19.6
Total	2,069.9

TARGETED EXPORT PROMOTION PROGRAM

The status of USDA's Targeted Export Promotion Program as of July 28, 1986, was as follows with value in dollars:

DATE ANNOUNCED	COMMODITY	VALUE	COUNTRY
July 28, 1986	Dry Peas & Lentils	$2.5 million	EC, Colombia, India
July 25, 1986	Table Grapes	$0.35 million	Western Europe, Australia, Panama, Japan, Taiwan, Singapore, Malaysia
July 18, 1986	Washington State Apples	$1.4 million	United Kingdom, Taiwan, Malaysia, Hong Kong, Norway, Saudi Arabia
July 17, 1986	Wood Products	$0.6 million 1/	United Kingdom
July 16, 1986	Wheat	$1.1 million	Developing countries
July 14, 1986	Poultry & Eggs	$6 million	Pacific Rim, Middle East countries
June 24, 1986	Feed Grains, Soybean Meal & Dairy Cattle	$9 million over 3 years	Algeria
June 23, 1986	Fresh & Processed Citrus produced in Florida	$4.6 million	Western Europe & Pacific Rim
May 20, 1986	Dried Prunes	$4 million	Western Europe
April 30, 1986	Wood	$1.95 million (over 3 years)	Japan
April 28, 1986	Wine	$2.3 million	Japan, United Kingdom, Hong Kong, Singapore
April 25, 1986	Almonds		Western Europe, Japan, Korea
April 17, 1986	Canned Peaches, Fruit Cocktail	$2.5 million	Japan, Taiwan
April 16, 1986	Walnuts	$7 million	Western Europe, Japan
April 16, 1986	Raisins	$6.3 million	Western Europe, Pacific Rim
April 14, 1986	Fresh and Processed Citrus produced in Arizona and California		Japan, Hong Kong, Singapore, Malaysia
March 27, 1986	Frozen Potatoes	$2 million	Japan, Hong Kong Taiwan, Malaysia Singapore
	Total:	$60.40 million	

1/ Part of April 30, 1986, wood TEA amount. Not included in total.

STATEMENT OF DON PAARLBERG, PROFESSOR EMERITUS, PURDUE UNIVERSITY

Chairman Boschwitz and Members of the Subcommittee, the Food Security Act of 1985, passed late last year, reduced loan levels for major crops to be harvested in 1986 and later years. In addition, the Secretary of Agriculture was given authority to reduce the loan rates further, which he did.

	Loan Level		
	1985 Crop	1985 Crop (After Adjustment)	Decline
Wheat, dollars per bushel	3.30	2.30	30%
Corn, dollars per bushel	2.55	1.84	28%
Rice, dollars per cwt	8.00	7.20	10%
Cotton, dollars per pound	0.573	0.421	27%

The expectation of many people was that these declines would result in an early increase in exports, particularly in view of the fact that a number of additional actions were taken to boost overseas shipments. Nevertheless, exports of most major crops are expected to be down during the present marketing year.

	Exports	
	1984-85	1985-86
Feed Grains, MMT	56.6	38.0
Rice, million cwt	62.1	55.0
Soybeans, MMT	16.28	21.23
Wheat, million bushels	1424.00	910.0
Cotton, million 480 lb. bales	6.21	2.01

In fact, to the astonishment of almost everyone, our agricultural imports recently exceeded our agricultural exports for the first time in at least 20 years.

The current lag in American farm exports is puzzling to many but it need not be so. When the 1986 crop is harvested and the new lower level loan rates take effect, market prices are expected to fall. We are already in the new crop year for wheat and prices have already fallen. The futures markets anticipate price declines. Here is a comparison of nearby and deferred futures prices:

	Nearby Contract	Deferred Contract
Cotton (cents/lb.)	.69 (July)	.32 (Dec.)
Corn (cents/bu.)	1.91 (July)	1.77 (Dec.)
Soybeans (dollars/bu.)	5.17 (July)	4.84 (Nov.)

What is happening is that foreign buyers, anticipating these lower prices, are holding off, living from hand to mouth and buying from other suppliers. It is as if a car manufacturer announced a sharp price decline for next fall's model; sales of this year's model would slow down.

We, the major exporter, have been virtually making the world price for the big export crops (except, of course, that other exporters have been pricing their products just below ours, making us again the residual supplier). With heavy world supplies, as our price is reduced, their price also comes down, giving us little export advantage from our price reduction. In a competitive market, lower relative prices are likely to continue until the lower prices, worldwide, attract buyers and cause a reduction in resources committed to agriculture. The world is awash with grain; lower prices are needed. The adjustment will take time. We have been a long while getting into our present predicament and cannot expect to get out of it soon.

There are numerous explanations for the present excessive world supplies and/or lagging exports: good weather, improved agricultural technology, the lingering effect of past embargoes, agricultural development in the third world, excessive debt in various importing countries, the past high exchange value of the dollar, recent worldwide recession, and unfair trade practices of the Common Agricultural Policy. While these explanations have some validity, the dominant causes appear to me to be the worldwide effort to expand agricultural production which followed the widely-heralded food alarm of the 1970s and the incentive prices embodied in the Common Agricultural Policy plus the price and income supports of the United States. Secretary of Agriculture Lyng says that if the price of eggs gets high enough, even the roosters will start laying.

There is talk about the United States being unable to compete in foreign markets with the major export crops. This sells American agriculture short. We have the world's largest area of land with good topography, fertility, latitude, and climate. Thanks in part to wise action by the Congress, we have the world's best system of transportation, processing, research, and education. Our farmers have what is probably the highest level of managerial competence in the world. Were it not for having made ourselves non-competitive and saddled ourselves with cost-increasing regulations and production restrictions, we could, on our major export crops, compete with anyone in the world. The current poor export performance is neither a test of the merits of the new farm bill nor an indictment of our agricultural efficiency.

What is the effect of price change on the quantity of a farm commodity that will move into export? This was probably the most hotly debated question during consideration of the Food Security Act of 1985.

Economic theory is clear that, other things equal, a price decline will result in increased exports. But this is of little help in a particular case since other things do not stay equal. In the present case, they have not done so.

Many studies have been made of actual experience regarding the effect of price on exports. The best summary of which I know is a May 1986 USDA publication titled Price Elasticity of Export Demand, Concepts and Estimates, by Walter Gardner and Praveen Dixit. The authors report the results of 29 studies of coarse grains, 23 studies of wheat, 19 of soybeans, 7 of cotton, and 3 of rice, a total of 81 studies. The results vary greatly from one study to another because of changed expectations, differences in the time under examination, differences in study methods and in the commodity being considered, differences in legislative and administrative actions that accompany the price change, and differences in weather, stocks, and overall economic conditions. In general, the short-run (one year or less) relationship is that a 10 percent change in price results in less than a 10 percent change in export volume in the opposite direction, so that gross revenue is less after a price decline. The long-run relationship (more than a year) is erratic but tends to be more price-responsive than the short run. That is, a 10 percent change in price is associated with more than a 10 percent change in export volume in the opposite direction, so that gross revenue increases after a price decline. The reason that export response to price is greater in the long run than in the short run is that it takes time for an importing nation to adjust its food system so as to accommodate the change in import price.

The most clear example I know of the really long-run response of exports to price is the case of cotton. During the three years 1928-30, before the Agricultural Adjustment Administration undertook to decrease the supply of cotton and increase its price, the United States produced a yearly average of 14 million bales of cotton, more than the rest of the world combined, which then produced only 12 million bales. Since then, we have almost continuously held the price of cotton above the world level and restrained production. The latest data, for the crop year 1985-86, show the United States produced 13 million bales, less than 60 years ago. The rest of the world produced 65 million bales. We have gone from producing most of the world's cotton to producing 17 percent of it. Our exports averaged 7 million bales during 1928-30, which the rest of the world exported about 5 million. During the present year, our exports are expected to be only 2 million and the exports of other countries are expected to be 18 million. By holding our prices continuously and substantially above competitive levels, we had to cut production and cut exports. The rest of the world increased production to five times the earlier level and took over the export market. There is no more vivid example of how seeming short-run gains are converted into genuine long-run losses.

If prices are held continuously above the world level, the results on exports are truly disastrous. We do not lack for historical examples. Witness the Stevenson Plan of the 1920s to reduce the supply and increase the price of rubber in the Malay States, which stimulated the production of rubber in the rival exporting country, Java. During the '30s the Brazilians restricted the supply and raised the price of coffee, putting a competitor, Africa, into the export business. Perhaps the most vivid and recent example of the effect of price on production and export is the OPEC oil cartel, which some years ago undertook to restrict output and increase price. This brought in new oil production in the North Sea, Mexico, China, the Amazon Basin and elsewhere, oil which is now in the export trade.

Once commitments are made to increase production, these decisions will not be quickly reversed.

We hear complaints from Canada, Australia, Western Europe, and other exporters about the new lower pricing policy of the United States. These countries have tailgated on us for many years, enjoying the favorable price effects, for them, of our policies. We supported the price, adjusted production, bore the cost, and carried the stocks. We held the umbrella. Now that we have taken down the umbrella, they are getting wet. I feel no remorse for them whatever. In fact, the Congress has taken the best possible course to bring sense into the Common Agricultural Policy of Western Europe. With the lower world prices, the cost of their "export restrictions" will shoot upward, very likely causing them to lower their support levels and reduce their incentives for overproduction.

That we should protect our agricultural exports from unfair trade practices of other nations is entirely clear. But a trade war with them would be disastrous; we normally have a net export balance and have more to lose from such a war than they do. I am happy to read of efforts on both sides of the Atlantic to reduce the acrimonious rhetoric and move toward negotiation.

Trade problems cannot be resolved in isolation; they are inevitably the reflections of domestic farm policies. Efforts to solve trade problems will be unavailing if the domestic farm policies which lie at their roots are left undisturbed.

Some people think that the lower prospective prices of American crops will reduce the incentive to produce. But farmers, considering their production plans, think of the prospective price PLUS the prospective deficiency payment. Target prices, not loan prices, are the signal for intended output. Target prices for the major crops are generally unchanged for the next several years. Incentives for excess production of the major crops continue much as they were before the Food Security Act of 1985. Buying farmers off from producing under these conditions becomes extremely expensive. With the target price, we urge them to produce; with the acreage reduction program, we try to persuade them not to produce. It is like two people with a joint checking account bidding against one another at an action.

The comments about the Food Security Act of 1985:

1. It takes the right direction in lowering prices of export crops, for which the Congress is to be commended.
2. But by holding the target prices high, it is likely to be exceedingly expensive, probably breaking the three-year Congressionally-imposed spending resolution limit of $34.8 billion. Possible actions related to Gramm-Rudman-Hollings pose additional latent spending limitations.

There are two possible courses open to the Congress if cost threatens to be excessive:

1. Reverse course. Adopt strict mandatory production controls while supporting prices at a high level. Effective production control would be difficult to achieve if price objectives were held high. Such action would again raise the umbrella for other exporters and would concede market growth to our rivals. For the commodities concerned, it would be a slow form of suicide.
2. Redirect benefits. Only about one-third of every dollar in defficiency payments goes to financially stressed farmers, those who have debt-to-asset ratios of 40 percent of higher. Fifteen percent of it goes to farmers with net worth in excess of $1 million.

In this connection, I wish to say a few words about financial stress in agriculture.

The Department of agriculture has a new publication, dated May 1986, titled Farm Sector Financial Problems: Another Perspective. It shows that on January 1, 1985, 213,000 -- or about 13 percent of farm operators -- had debts equal to 40 percent or more of their cash assets and had negative cash flows. These operators held about 45 percent of the total debt held by farm operators and were unquestionably in deep financial trouble. But most other farmers, those who avoided heavy debt, were not in like difficulty. In fact, considering agriculture as a whole, net cash income, the difference between cash receipts and cash expenses, has held fairly well. Net cash income is an important measure of economic well-being because it measures cash available for debt management and family living.

For some farmers, much or all of this net cash income is gobbled up by principal and interest payments on mortgaged indebtedness. The problem is that so small a part of the commodity program outlay is going to these troubled farmers.

The bulk of program disbursements goes to producers of feedgrains, wheat, cotton, rice, dairy products, and a few other commodities. Left out are producers of cattle, hogs, poultry, and specialty crops like fruits and vegetables who together produce more than half the crops and livestock that go to market. Many of these farmers also experience financial stress and receive little or no help from the Food Security Act of 1985.

Most of the lobbyists who talk to you propagate two myths:

1. That all of agriculture is in deep trouble, and
2. That the commodity legislation will help all these farmers.

Both of these myths are false.

If the cost of the program proves excessive, the deficiency payments could be reduced. The saved money could be used to reduce the deficit. Some of it could be used to help renegotiate and restructure the excessive debt on our troubled farms. By thus redirecting benefits, the Congress could achieve three worthy purposes:

1. Farmers who really are in trouble could be helped.
2. Runaway program costs could be restrained.
3. The constructive new direction the Congress has taken in reducing loan levels could be maintained and incentives for excess production would be reduced.

This would not be easy. What everyone wants is a quick and painless fix that would set aright the misallocations that have come about after a half-century of holding prices above competitive levels. There is no such fix.

The Food Security Act of 1985 moved us in the right direction so far as loan levels are concerned. Poor current export performance and high program cost should not be allowed to move us away from that proper course.

STATEMENT OF MARTIN E. ABEL, PRESIDENT, ABEL, DAFT AND EARLEY

Mr. Chairman, my name is Martin E. Abel, President of Abel, Daft and Earley, a Washington, DC economic research and consulting firm specializing in food and agriculture.

The Food Security Act of 1985 placed major emphasis on expanding U.S. agricultural exports by providing authorities to improve the competitive position of the United States in world markets and to increase world agricultural trade.

Aggressive use by the Administration of authorities to lower loan rates together with a major decline in the value of the dollar have made the United States much more competitive. It will take time, as Secretary Lyng has stated, for improved competitiveness to increase U.S. exports and for the U.S. to regain fair shares of world markets. Exporting and importing countries respond slowly to lower prices, and many of them not at all because their markets are insulated from the rest of the world.

What is required is a steady course on price competitiveness, one which the Administration has followed to date. Lowering prices even further will not increase exports much in the short-run and will be very costly. For example, USDA, as reported by the press, estimates that market payback loans for wheat, feed grains, and soybean would cost the government $5-$7 per bushel for each additional bushel exported over the next two years. This is two to three times what it would cost to give these commodities away.

Regaining a fair share of a stagnant world market, however, will only go a small way toward eliminating U.S. surplus production capacity. For example:

- Regaining a 42 percent share of world wheat trade in the 92 mmt world market estimated for 1986-87 would boost exports to 1.4 billion bushels. Total U.S. wheat disappearance would be slightly over 2.4 billion bushels, but we have the capacity to produce over 3.0 billion bushels.
- In the case of feed grains, a more normal share of the 87 mmt market estimated for 1986/87 would result in corn exports of nearly 1.8 billion bushels and total use of 7.2 billion bushels. Yet, the United States has the capacity to produce about 9.0 billion bushels of corn a year.

Strong emphasis needs to be placed on expanding world trade. The Food Security Act of 1985 provides a range of authorities for using agricultural commodities to strengthen economic and market development, especially in the developing countries which have the greatest potential for trade growth.

These authorities include PL 480, Section 416, short- and intermediate-term credit, use of commodities in-kind for export enhancement, and appointment of a Special Assistant to the President to coordinate food aid and trade activities.

The primary focus of market development activities should be to treat countries as individual markets and provide packages of export assistance that best fit the needs of each country and effectively contribute to economic growth and market development.

It is now seven months since the Food Security Act of 1985 was passed and the Administration has been slow to use the export authorities provided by Congress.

- The Food-For-Progress provision of PL 480, designed to assist countries who adopt more market and private sector oriented policies, has been little use, with only two countries in Africa being targeted so far.
- The intermediate credit program, important to many middle-income developing countries that are not eligible for PL 480, has been used sparingly.
- Donations of commodities under Section 416 are being made at a slow pace.
- The Special Assistant to the President, a key position to coordinate a complex decision process, has not been appointed even though the Food Security Act of 1985 required that this position be filled by May 1, 1986.

We are off to a very slow start on promoting economic growth and market development, which is the ultimate solution to excess production capacity in American agriculture.

Testimony of

RON JOHNSON

on behalf of
THE FERTILIZER INSTITUTE

In April 1985, The Fertilizer Institute* testified before the Senate Agriculture Committee to express its views regarding farm bill legislation. Our message was simple. American agriculture could not afford a 1985 farm bill based on the short-term fixes which have characterized American farm policy. The misguided and self-defeating policy of high loan and target prices and huge acreage reduction programs contained in the 1981 Farm Bill was crushing America's agricultural infrastructure and we sought passage of not just another "farm bill" but a comprehensive national agricultural policy to serve our nation well into the future.

The 1985 Farm Bill represents a compromise of several different viewpoints on farm policy, but it does not represent a comprehensive national policy for U.S. agriculture. It is unique, however, in that it provides unprecedented discretion to the Secretary of Agriculture to intervene in agriculture by setting loan rates, export subsidies and acreage reduction programs. In many cases, on difficult issues, Congress passed the decisionmaking process and the political torch to USDA.

These hearings mark the first attempt to evaluate the impact of the 1985 Farm Bill on world agricultural trade, a vital factor in the well being of our nation's economic system. We appreciate the opportunity to once again express our view.

EXPORT TRAGEDY

The U.S. agricultural export picture has deterioriated so drastically since 1981 that it represents one of the great tragedies of our time. In 1981 the American farmer sold $44 billion worth of products overseas which amounted to 162 million metric tons of commodities. Farm exports have fallen 38 percent from this record level, to only $27.5 billion -- with the amount of commodities sold dropping to 116 million metric tons.

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*TFI is a voluntary, non-profit association whose members represent approximately 95 percent of the domestic fertilizer production in the United States. TFI's membership includes: producers, manufacturers, traders, retail dealers and distributors of fertilizer materials. Its members are major shippers, receivers, and exporters of fertilizer and fertilizer materials and are a vital link in the nation's agriculture system.

Even worse is the catastrophic change in our agricultural balance of trade. In 1981, we exported $26.6 billion more in agricultural products than we imported. This year, agriculture's balance of trade will only be $8 billion and in May of this year -- for the first time -- our nation was a net importer of food to the tune of $348.7 million.

How did this agricultural demise occur, and who is taking advantage of it? Although the subject may seem overworked, much blame can be traced to the 1983 PIK program. It removed nearly 80 million acres from production at a cost to the U.S. Treasury of about $10 billion. But the real price was paid when our competitors put 63 million acres into agricultural production to take advantage of our voluntary withdrawal from the world market. Since one out of every three acres of agricultural production is intended for exports, it is easy to calculate the self-inflicted wounds of idling 80 million acres.

India has tripled its wheat production in five years; China has won corn and cotton markets throughout the Pacific Basin -- markets which were once ours; Indonesia, previously a major rice importer, has raised its rice output 50 percent in the past seven years.

On the grain side, the European Economic Community has increased its use of export subsidies and export credits in a continued effort to undercut U.S. export prices to gain increases in world market share. And to a large extent, the EEC, along with Canada, Argentina and Australia, have succeeded. During the 1985-86 crop year, world wheat trade declined by over 600 million bushels, with the U.S. share of the world wheat market falling from a high of 48 percent in 1981 to only 29 percent this year. Since 1978, EEC wheat exports have doubled -- making the common market the world's leading wheat exporter, supplanting the U.S.

The following table highlights these declines by comparing the U.S. market share for the major U.S. price-supported commodities over the last five years:

	1981/82	1985/86
	(U.S. Share of World Market)	
Wheat	46	32
Corn	60	48
Rice	25	16
Soybeans	92	80
Cotton	34	12

One of the principal reasons the U.S. has become so uncompetitive is its high loan rates and acreage reduction programs. Under existing farm legislation, the U.S. establishes a price floor for the world market through the loan program. Throughout the 1970s, the U.S. kept its price support levels below the world price, allowing the U.S. to remain competitive in world markets. However, beginning in 1981, the U.S. loan rates began to rise above world market prices, causing the U.S. to lose substantial market share to our foreign competitors.

The announced rise in these loan rates gave our competitors in Europe, Canada, Argentina and Australia an easy target to shoot under. Then when we were generous enough to idle 80 million acres under PIK, helping them even more. We ignored marketplace common sense by raising our prices in the face of falling demand -- then exited the market by cutting production.

To add insult to injury, production cuts have failed to do the very thing they sought to do -- reduce the surplus. Today, surplus stock numbers are frightening. The U.S. is estimated to have nearly 2.2 billion bushels of wheat in storage. This is enough to give every man, woman and child on earth 27 loaves of bread. The corn surplus is 4.6 billion bushels -- more than half of all the corn the U.S. produces in a year.

What can we do to turn this situation around?

Secretary Lyng was given some major tools to help correct agriculture's dismal situation -- tools in the form of marketing enhancement programs and the marketing loan provision. Rice and cotton producers have benefited from this plan and we are strongly urging Secretary Lyng to implement a marketing loan for wheat, feed grains and soybeans. Before discussing this, let's look at what marketing loan has done for rice and cotton in its months of implementation.

The rice marketing loan took effect on April 15 of this year and export sales immediately jumped 16 percent in April over the previous month. U.S. rice exports for the week ending June 12 totalled 305,800 metric tons, up nearly 18 percent from the same week one year ago. This was the fourth consecutive weekly increase.

To bring the point home on a more personal level, Riceland Foods was able to rehire 250 people and now has its facilities operating 24 hours a day, six days a week. This one example shows the dramatic impact of the marketing loan concept.

The cotton marketing loan does not take effect until August 1 but already the market is reacting positively in anticipation of renewed producer competitiveness. For the past five years, domestic cotton sales averaged 5.8 million bales sold domestically and 6.2 million bales exported. By 1985, cotton exports are projected to drop to a mere 1.8 million bales.

However, in anticipation of marketing loan on August 1, domestic sales projections for domestic use in the 1987 year have jumped to 7 million bales, with exports rebounding to the 6 or 7 million bale level from the dismal 1.8 million bale figure of a year ago.

Cotton producers were pleased to see their sales projections increase by over 1 million bales in the U.S. and by between 4 and 5 million bales overseas. Already, Australia and South America are cutting back cotton acreage as America is strengthening its resolve to regain lost cotton markets.

Shifting to wheat, corn and feed grain exports, The Fertilizer Institute is confident that a marketing loan would create similiar results to remove the 2 billion bushels of surplus wheat and 4.6 billion bushels of corn. Yet, when we suggest a marketing loan for these commodities, USDA complains of the high cost associated with it. We are told that marketing loan would cost nearly $3.2 billion in CCC outlays for the '86 and '87 crops of wheat, feed grains and soybeans. This figure only tells a part of the story.

USDA has just finished the study mandated by the farm bill requiring USDA to assess the impact of acreage reduction programs on rural America. This is the first time anyone has ever studied the negative impact of ARPs.

The findings show for 1986 only:

1. Without any acreage reduction programs, the U.S. would have planted 235 million acres instead of 205 million acres.
2. If the U.S. had not mandated this 30 million acre reduction (we are the only country in the world that follows this foolish practice) the farmer would have spent $16 billion on inputs (fertilizers, pesticides, seed and feed) instead the farmer spent only $13 billion. This denied rural America at least $3 billion in income under the guise that farmers would reduce production.
3. The fertilizer industry lost $1.5 billion in 1986, pesticides lost $650 million, energy producers lost $500 million and seed manufacturers lost $350 million.
4. In 1986, 260,000 jobs were eliminated by ARPs.
5. In 1986, $580 million was lost in federal and state tax losses.

To cite PIK again, the program cost was roughly $10 billion. Its goal was to reduce surpluses, yet today we have roughly 2 billion bushels of wheat -- nearly a half billion more than the day PIK was implemented. Similar statistics are true for corn. We are the only country in the world that uses ARPs and we've successfully proven they don't work.

Also, input industries lost $5 billion in sales because of PIK. Where are the loan rates, target prices and paid diversions for the fertilizer and equipment industries? Where are the price supports for rural businesses like hardware stores, implement dealerships, feed stores, and even local coffee shops that were devastated by PIK. And, it's not just for the input side of agriculture that farm exports are important. Agricultural exports also make a significant contribution to the total U.S. economy. S. C. Schmidt, Department of Agricultural Economics at the University of Illinois, reports that:

- Every dollar received from agricultural exports creates another $1.05 worth of economic output immediately in the U.S. Thus, $38 billion of agricultural exports in FY '84 provided another $40 billion value to the economy as a whole -- a total immediate impact of $78 billion. I know of no other business activity in the U.S. where the economy realizes such a handsome return on its investments.
- Agricultural exports have a long-term multiplier effect of 3.5 to 4. Thus, 1984's $38 billion worth of agricultural exports generated between $133 billion and $152 billion to the gross national product over the longer term.
- Each billion dollars' worth of agricultural exports create 30,000 jobs in agriculture and in the related agribusiness and food sectors. Based, again, on the multiplier effect on GNP, 60,000 jobs in total U.S. employment are created. Thus, the $38 billion of agricultural exports in FY '84 sustained approximately 3.4 million jobs.

Why don't we calculate the cost of commodity handling, storage and acquisitions against the marketing loan program? After all, USDA figures show that it costs about $400 million each year because of loan forfeitures on commodities. The 1981 farm bill's cost for acquisition, storage and handling came to over $1.5 billion, and costs may go as high as $2 billion during the five-year life of the 1985 farm bill.

Let's total these figures up: $10 billion for PIK, $5 billion in lost input sales, $2 billion per farm bill for acquisition, storage and handling. These figures add up to roughly $17 billion -- and they don't take into account the losses in tax revenues from employees, farmers and companies which have been stripped of their livelihood -- and what do we have to show for it?

Now let's look at total USDA spending for the past six years and ask what we, as a nation, have to show for these massive expenditures:

	Commodity Credit Corporation (billions)	Total Outlays (billions)
1981	4.0	26
1982	11.7	36.2
1983	18.9	46.4
1984	7.3	47.5
1985 *	17.7	52.2
1986 *	24.3	55
1987 (projection)	25 (plus)	55 (plus)

* Includes FFB off-line budget expenditures for credit

These figures indicate that the five year farm bill will cost the American taxpayer (if we keep on this present destructive course) over $275 billion! These figures are embarrassingly high and, what is worse, we are less healthy than when farm bills cost under $6 billion. What are people getting for their money?

The U.S. has repeatedly spent enormous resources to reduce surpluses -- and failed. How much longer will the average American tolerate the costs of a bloated agricultural policy that doesn't work? Americans care about farmers and are willing to pay a price to ensure that farmers are provided a safety net. But, when government quadruples its farm program spending and effectively worsens the farmer's plight -- agriculture is cast in the same lot as $800 hammers and $600 toilet seats.

Why not make an investment in agriculture's future? Why not spend $3 billion on a marketing loan and use this money to generate commodity sales instead of paying to let grain sit in an unused storage facility.

Our past experiments with farm policy haven't worked. It is difficult to understand why policymakers would urge a return to those policies.

In the marketing loan program, we have a proven means of reducing surpluses, increasing exports and protecting farm income. So why not give it a try on wheat and feed grains?

STATEMENT OF DAVID LYMAN, PRESIDENT, AMERICAN CHAMBER OF COMMERCE IN THAILAND

Mr. Chairman and Senators, I come before you today as the President of the American Chamber of Commerce in Thailand directly representing 400 American and associated companies, having almost US$ 4 billion in investments in Thailand and over US$ 2.4 billion in bilateral trade in 1985.

My family has made its home in Thailand for the past 37 years. I just buried my mother in Bangkok, and then climbed aboard one of several airplanes to travel half-way around the world--arriving in Washington only yesterday. I have made this voyage because of the importance attached to my testimony today on the Food Security Act of 1985 (Farm Act) by both the American business community in Thailand, and the vast bulk of Thailand's 52 million people whose way of life, whose very livelihood is largely dependent on rice.

As President of AmCham Thailand, my responsibility is to represent all American business in and with Thailand, not just the manufacturing and service industries but also the American farmers, processors and commodity traders who buy from and sell to Thailand as well as compete with Thailand in the world's agricultural markets.

I come before you to underscore the damage done to 150 years of historically amicable and close bilateral relations between the United States and Thailand. The damage largely stems from the predatory nature in which it is perceived the rice section of the Food Security Act of 1985 has been enacted and then implemented by the U.S. government and the harm that has been caused to the Thai economy and to the Thai farmer in particular. I would also like to suggest a way out of the quagmire caused by the rice section of the Farm Act so everyone becomes a winner. I did not come to plead the Thai Government's case not to do battle with the 11,000 American rice farming families, not the powerful Rice Millers Association, not the representatives of the six States where American rice is grown.

Thailand is currently the largest rice exporter in the world, having recently accounted for roughly one-third of the 12,000,000 tons traded world-wide in each of the past several years. As there are no export subsidies on Thai rice (on the contrary, up to January 1986 rice exports were taxed by the Thai Government) and as the local trade is freely the domain of the local Thai-Chinese rice traders, a Thai farmer's income depends directly on the international price of rice.

Presently in the U.S. about 11,000 farm families (approximately 44,000 people) are engaged in rice farming. The U.S. acreage planted to rice, about 2,500,000 acres, constitutes a fraction of 1 percent of the total amount of land under cultivation. By the way of contrast, 60 percent of the land cultivated in Thailand is planted to rice, about 30,000,000 acres with an average farm size of only 10-11 acres compared to the average American rice farm which is 227 acres in area. An estimated 35,000,000 people--about 70 percent of the Thai population--are engaged in agriculture and agriculturally related activities. Furthermore, according to the Thai Ministry of Agriculture and the Thai National Statistics Office, official data estimates that some 23,000,000 persons--

one-half of the population--depend on rice production for the entirety of their income. Thus 3,300,000 farm families engaging in rice cultivation in Thailand stand in dramatic contrast with a mere 11,000 farm families similarly engaged in the United States.

To add to your understanding of the contrasts, the U.S. target farmgate price for rough rice (paddy), which includes all subsidies, of U.S.$ 11.90 per hundred weight (cwt) equals U.S.$ 261.80 per metric ton of U.S. paddy. The U.S. subsidies alone, totalling US$ 900,000,000 to US$ 1,000,000,000 for 1986, are 2 1/2 times the USDA weekly announced market prices for U.S. rough rice and equate to an empirical sales price for milled rice of well over U.S.$ 400 per ton, about double today's market value. The current Thai farmgate price is only U.S.$ 84.83 per ton with no subsidies. To further impress on you the dramatic nature of this contrast, in 1985 the average Thai rice farming family had a total gross income of only U.S.$ 950. On a per capita basis, this amounts to less than U.S.$ 200; a meager sum indeed whose quantity is further reduced by the production cash outlays that must be subtracted from such figures. The Thai farmer is close to the breaking point.

Yet, from December 1985 this small income for the Thai farmer has declined by about 20 percent, according to the Thai Ministry of Agriculture statistics. Thais believe that the provisions for rice in the Farm Act are substantially the cause of this situation.

Let's not argue the logic of the Farm Act, nor whether "world rice prices" are entirely or only partly the reason for low rice farm prices in Thailand. I only wish to report to this Sub-Comittee the realities and dimensions of the rice economy in Thailand, and the Thai perceptions of recent events related to the passage and implementation of the rice provisions of the Farm Act. Additionally, I wish to point out how difficult things are for the Thai farmer and how, in Congress' effort to assist U.S. rice farmers, the Farm Act has sadly affected the livelihood of 3,300,000 families in a distant and gentle country.

The U.S. is rightfully proud of being considered the leader of the modern world in farming, technology and industry. When our self-image is threatened by unfair competition, subsidies and outright privacy of intellectual property, we Americans react strongly. Thailand, our close ally, views itself as the greatest rice producer in the world. When threatened, Thailand, too, reacts strongly.

The Thai government, while sensitive to the needs of its country's population, does not subsidize its farm exports. Thus, there is first a sense of bewilderment and then anger felt by the Thais as they perceive a direct attack on the underpinning of their economy from a country with which it has had more than 150 years of the friendliest of diplomatic and commercial relations and which is seen to be using its vast economic resources to overbear a relatively poor friend. There is a sense of betrayal by an old ally.

This esteemed Subcommittee is charged with the most difficult task of asssuring international fair trade in agricultural commodities. Assuredly, this includes the international rice market. We, in the American Chamber of Commerce in Thailand, unreservedly applaud all initiatives taken to open world markets to all American goods, services and commodities.

Thailand purchases large amounts of American tobacco and raw cotton for conversion in Thai factories. While Thailand itself is a noteworthy trading partner of the U.S., deterioration of our relationship with Thailand has the potential of hurting the U.S. in several other important markets. Thailand is a leader of the Association of South East Asia Nations (ASEAN), a trading block of six nations, with a combined population of 270 million people. U.S. trade, including exports of agricultural commodities, with this group of nations equals our trade with the E.E.C. This trade is growing at a faster pace than with any other part of the world. Let us not sow the seeds of distrust amongst these key allies.

With Thai rice farmgate prices dropping as they have since 1981, but not as dramatically as the 20 percent plunge starting in December 1985, it's not just that the Thai farmer's income is being cut into but also that he is now under intense pressure to meet his debts. To the extent that one may measure, it appears that his production costs are around 30 percent above his current farmgate prices. The Thai farmer is being forced to look at survival. Except for growing enough rice to feed his family, and unless he can begin to earn more from his rice crop, the Thai farmer may start looking for cash crops which provide him a more lucrative source of income. Some highland farmers could well turn to opium and lowland farmers to marijuana. This income loss to such a large percentage of the Thai population could cause civil unrest as it did in the mid-1970s and could recreate fertile fields for a resurgence of insurgent activities which the Thais brought under control some years ago by innovative methods including increasing farmers earnings. Communist controlled Laos and Kampuchea still abut all of Thailand's eastern and northern borders for hundreds of miles. And let us not forget that Thailand for the past 11 years has been a country of first asylum for hundreds of thousands of Indochinese refugees, who are still seeking shelter on Thai soil. Thailand is a very obvious frontline state whose soldiers and civilian population today shed their blood and lives to keep the Vietnamese, Khmers and Laotians at bay. Thailand is strategic to U.S. interests in Southeast asia.

Japan has the strongest economic influence over the nations of ASEAN. These countries are looking for alternatives to Japan's economic domination but they must consider whether, in seeking to increase economic reliance on the U.S. as an offset, they are approaching a party who is perceived as being insensitive and uncomprehending of Southeast Asia's plight.

As a direct response to the 1985 Farm Act, Australia and Thailand have just led a meeting of twelve nations which do not subsidize their food exports, such as Canada, Argentina, and Indonesia, who are uniting against the U.S. to investigate measures to counter the Farm Act. Look how the Farm Act is disturbing American relations all over the world. Surely this was not intended.

The U.S. has but a few strategic allies in Asia. Thailand fought beside the U.S. in France, in Korea and in Vietnam. Thailand still feels the direct impact of the Vietnam War that is not yet over. Where do the refugees go? Where do the Vietnamese artillery shells still fall? Whose farmers are unable to live in peace along border area? And whose budget is strained to buy American arms to repel these periodic invaders?

Thailand is attempting to live its own version of the American dream: achieve a democratic society, work hard and live well. It is truly a nation of farmers in transition from a precarious subsistance existence to relative prosperity. It is a country of increasing democratization. It is a country whose growth the U.S. has encouraged for decades through various aid programs. All this effort could be endangered by the perceived effects on Thailand of the Farm Act, if provisions are not made to alleviate its menacing impact.

Now, what to do?

Left to themselves, Thai and American rice will continue to service their present markets as, with some exceptions, they are essentially catering to different tastes and traditions. The exceptions deal with those few countries which are price sensitive such as Iraq, Brazil and Sri Lanka. Thai and American rice exports can co-exist in harmony as they have for decades. The decline in American rice exports in the first half of this decade was in large measure self-inflicted by America's 1981 Farm Act. The Thais are not responsible for that. The Thais didn't "steal" American rice markets, as they have been accused of. As a natural progression, Thai rice supplied some of the void left open by American farm support policies of the time which kept American rice export prices at unrealistically high levels.

The tragedy is that under the 1985 Farm Act neither the U.S. nor the Thai rice farmers are really gaining market share at the expense of the other. In fact, they both are selling slightly larger quantities of rice to the same buyers than they did in 1985, but at different mixes of grades and, most importantly, at much lower prices. Who is gaining here? Are not both countries losing?

As a result of a lot of hard work, and some luck, both Thai and U.S. rice export volumes are up in the first half of 1986. The U.S. is taking some share of Thai top grade rice sales but this may be more a function of U.S. concessional sales, i.e. PL 480/GSM sales to countries such as Iraq, rather than just commercial sales.

If indeed the U.S. is taking some market share from Thai high grade customers and if it is through concessional sales, then one might ask: what is the point of having a Farm Act which lowers world market prices when it is not lower "world market prices" which are resulting in an increased tonnage of high grade U.S. rice export sales? If the United States gives it away, or sells it on credit to customers who cannot obtain finance from the world's bankers, there seems to be no point in lowering "world rice prices" through the artificial means of the 1985 Farm Act.

My plea, is to urge Congress to enact a rice amendment to the Farm Act as soon as possible. Since subsidies to American rice farmers will be with us for the foreseeable future, what is needed is a mechanism to maintain the income transfer system from the government's Treasury to the American rice farmer, but, in a manner that does not depress the "world paddy price". This technique will allow the "world rice prices" to climb in response to market forces.

An interim quick fix might include an agreement between Congress and USDA to increase the premium for U.S. rice over Thai rice used in their weekly USDA repayment rate calculations. A premium has been traditionally justified because U.S. rice is really of higher quality than Thai rice of so-called comparable grade. If the USDA is using U.S.$ 40 as the premium in their formula, then for calculation purposes this could easily be doubled without adversely impacting on U.S. rice exports. And it would be an enormous boost to Thai farmgate prices which are so sensitive to USDA's weekly repayment rate announcements.

A rise in "world prices", which are a natural outgrowth of higher USDA weekly repayment calculations will satisfy the Thai requirements of being able to sell rice at a respectable level above the costs of production. It will not affect the ultimate price received by the American rice farmer under the law. By spreading a higher sales price of rice among its many consumers in the world, the American subsidies for rice, which are estimated for 1986 to be US$ 800-900 million, will be reduced considerably. Reducing the subsidies the U.S. government pays under the law will in turn help reduce the U.S. budget deficit exacerbated by under-estimated agricultural subsidy requirements. This in turn could preserve those subsidy funds needed for other programs from mandatory cuts or sequestration under Gramm-Rudman.

If we don't try something positive, then we will likely be faced with further deterioration of U.S.-Thai relations with wide ranging implications. We must ask ourselves: do we sit still or do we try to find a way out of this potential quagmire? Are we really prepared to risk sacrificing the goodwill, the friendship, the strategic access our long time staunch ally Thailand has in Southeast Asia and ASEAN, the narcotics suppression efforts and the asylum for refugees?

The fate of all that rests with you, Senators, and your colleagues in the House of Representatives. I implore you to amend the rice provisions of the Farm Act without delay if we are to accomplish our tasks of increasing U.S. rice exports in a fair manner which correspondingly will be beneficial to all concerned and will build better friendships around the world.

Thank you for allowing me to speak with you on this agricultural issue of significant international implications.

STATEMENT OF CAROL BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Thank you, Mr. Chairman, for the opportunity to appear before the Subcommittee on Foreign Agricultural Policy today. I can think of no subject more important for the future of American agriculture than our current and potential export situation.

The 1985 Food Security act was an important milestone in agricultural policy development in that Congress recognized two critical facts: first, the vital role of U.S. agricultural exports; and second, the relation of U.S. domestic farm programs to our export competitiveness. Initiatives within the law are designed to fight unfair trade practices, expand U.S. export initiatives--both commercial and concessional--and adjust U.S. domestic price supports in line with world market realities.

These initiatives will work, given time and the appropriate macroeconomic environment for expanding trade internationally. Yet, we suffer from the serious disease of impatience. The 1985 Food Security Act is a 5-year authority. It was not signed until the closing hours of last year, as you well remember. Today, we are barely seven months into 1986 and already the doomsayers are claiming that the policy isn't working. This charge is really absurd and reflects no real understanding of basic market economics.

Today we must put all our efforts towards understanding what we can realistically do to improve our agricultural export development.

This will take time, and the length of time required will depend upon crop conditions in exporting and importing countries and the level of economic growth in the world. It is only through increased economic growth that purchasing power will increase in major markets for future export development--the less developed countries (LDCs) and centrally-planned economies (CPEs).

Our plan of action must be clear, it must be positive and it must be effective. We have three major objectives to achieve.

First, and most important, we must reform the rules which govern the agricultural trading system to reduce the barriers to markets and inequities in trade which exist. The U.S. should take a vigorous lead in bringing others to the bargaining table immediately to negotiate rules which remove distortions in selling policies and market access. We should use all the tools available in the 1985 Food Security Act to make this possible.

Second, we must move the world back to agricultural production decisions based upon real returns. The U.S. is on the right track with its domestic program decisions, but the commitment to permit markets to seek their "clearing" level has to be sustained through providing adequate support for farm income during this transition.

And, third, we must increase the overall size of the marketplace through efforts to increase buying power in the developing world. The U.S. needs to expand the use of its agricultural credit and aid programs in concert with our overall strategy to stimulate sustained economic growth in developing countries.

Our strategy toward achieving these objectives must be consistent and it must be long-term. Any export initiatives or domestic programs we consider should be implemented only if they further the achievement of all three goals.

This means, for example, that we cannot be concerned about lower prices over the short-term in the market place, because only through lower prices will decisions to expand production offshore begin to change. And then, if the U.S. can retain its efficient and competitive delivery system into export markets, we stand to gain the most from increases in annual trade demand.

American agriculture has a future--in fact, it has a dynamic future--if we are serious about export development.

But, before examining these concepts further, I think it is important to look back and understand why our agricultural boom busted, if we are to restore our competitive position in world markets today.

What caused today's export crisis

Let's face the truth honestly. Our export share did not collapse overnight with the decision to fight inflation in 1981. Nor was the virtual 40 pct tax on U.S. exports a result of the over-valued U.S. dollar in the past several years, the only cause of our reduced export share. Back in the "golden years" of U.S. export growth in the 1970's, we planted the seeds for this dismal harvest in our agricultural trade today.

When the world markets took off in 1972, the U.S. was well-positioned to benefit from the great surge in demand. During the 1960's and early 1970's, U.S. agricultural officials had steadily worked to bring U.S. support prices down to world market levels, and to reduce stock levels. At the same time, our food aid and credit programs had helped build markets in many consuming countries.

U.S. export demand exploded in 1972-75 for a series of reasons: the combination of the low dollar, interlocking crop problems in major consuming and producing countries, the Soviets' successive poor harvests and decision to meet domestic needs through imports, the entrance of China into the import market, and the first oil shock which triggered inflation and money flows into many developing countries.

High prices of agricultural commodities were driven by real demand, with tight supply-demand fundamentals. And then, the markets continued to work, with high prices encouraging production expansion in many countries around the world. These supplies began to come onto the market in the 1975-76 period, when the effect of recession was also squeezing the world economy. U.S. grain prices fell ahead of the 1976 election, and the U.S. government responded by nearly doubling the wheat support price from $1.37/bushel to $2.25/bushel. It was here that U.S. agricultural policy began its major movement away from market signals. It was here in 1976 that we put in place the domestic support policies that have contributed greatly to our lost market share today.

The table below, which Senator Boschwitz presented during consideration of the 1985 legislation, shows very clearly the relationship that has existed between our support prices, target prices and market prices.

		WHEAT	SEASON		CORN	SEASON
	LOAN	TARGET	AVG PX	LOAN	TARGET	AVG PX
1972	1.25	----	1.76	1.05	----	1.08
1973	1.25	----	3.95	1.05	----	2.55
1974	1.37	2.05	4.09	1.10	1.38	3.02
1975	1.37	2.05	3.55	1.10	1.38	2.54
1976	1.37/2.25	2.29	2.73	1.10/1.50	1.57	2.15
1977	2.25	2.90	2.33	2.00	2.00	2.02
1978	2.35	3.40	2.97	2.00	2.10	2.25
1979	2.50	3.40	3.78	2.10	2.20	2.52
1980	3.00	3.63	3.91	2.25	2.35	3.11
1981	3.20	3.81	3.65	2.40	2.40	2.50
1982	3.55	4.05	3.55	2.55	2.70	2.68
1983	3.65	4.30	3.54	2.65	2.86	3.25
1984	3.30	4.38	3.46	2.55	3.03	3.05
1985	3.30	4.38	2.90*	2.55	3.03	2.31*

*Avg Price as of September, 1985

Then when farmers marched on Washington and the days of the tractorcades led to additional efforts to manage prices and supplies in 1977 and 1978 legislation. We raised price supports further. We set a second tier of price supports through a farmer-owned reserve designed to shelter supplies from the market. And we cut acreage and locked up stocks, other countries expanded their acreage and output, supported by our unilateral supply management efforts and guaranteed price floor. They had no real risk. We guaranteed them continually higher returns.

We failed to understand two critical factors. First, that price is a function of demand as well as supply. And, second, that the driving force is world supply/demand. Although the production from well over one-third of our acres was moving overseas, we still were writing agricultural programs, wearing domestic "blinders". We just did not adequately consider the effect of our actions on world supply.

However, the serious damage of this policy approach relative to both domestic land values and export expansion was not felt for a few years, because the Iranian Revolution and the second big oil shock in 1979 triggered a major new inflationary binge. Had it not been for the oil crisis in the late 1970's and the tremendous surge of additional agricultural exports that the recycling of petrodollars brought to the LDCs, the severe adjustment we are experiencing in agriculture today probably would have taken place in the 1978-79 period, when the supply/demand balance was already reflecting the major shifts that were underway in world grain production/trade.

In addition to domestic program decisions that distorted the world price structure, we made some other serious mistakes. First, we embargoed the Soviets and other buyers for both foreign policy and short supply reasons four times between 1973 and 1980. We used food as a "weapon", or became overly protective of our own domestic market when supplies were low. The term "reliable supplier" can never be over-used when discussing what factor is crucial to business development and maintenance.

Second, we cut back our food aid and other market development programs when commercial sales were booming. We neglected to continue a commitment to use our food resources in building future markets.

And, third, we sat back and allowed the European Community (EC) to shift its position from a major importer to exporter, without taking strong and decisive actions in both bilateral disputes and within the Tokyo Round to correct the abuses of the common agricultural policy's (CAPs) export subsidy regime. Our markets were flush, and we just didn't put the effort that should have been taken into fighting this policy when the real shift in EC export expansion began.

When the global recession in 1981 began to bite, and the dollar soared, the U.S. was in a particularly vulnerable position following the Soviet embargo in 1980. Our response was again to try to protect farm incomes in the 1981 agricultural act through raising prices supports and cutting production. And, once again, all we did was transfer more production overseas.

And then came the 1983 PIK program to reduce record stocks. The effects were devasting. We transferred even more acreage and more business overseas and became even less competitive in export markets, and we built new record stocks. The cost to the U.S. agricultural economy far exceeds any dollar figure put on CCC PIK outlays.

Over the past decade we ignored basic tenets of international trade; we ignored basic tenets of the marketplace. How wrong we were. That is primarily why we have lost market share and our overall competitiveness .

Where we are today

The 1985 Food Security Act gives the U.S. considerable flexibility in regaining competitiveness, improving the trading system within which we have to compete and building a bigger marketplace. However, we haven't made it easy to accomplish in the short-term.

Although the Secretary announced in January that U.S. price supports for grains would be reduced by more than 25 percent for the new 1986 crop, there was no action taken to allow the market to adjust down to that level in the 6-9 months intervening before the new crop year began for wheat (June) or corn (September). There were people in the trade and on the Hill who warned what the effect would be on markets, but officials did not want to "change the rules" of the 1985 crop program. What they failed to seriously consider was that the rules already had changed in the passage of the new law and the 1986 program announcement.

The effect has been to severely reduce grain export movement. Overall export volume is down, and the U.S. share has fallen further because we gave our competition a window to move out their stocks before our new programs became effective. It is no different than if General Motors last January had announced a 25 percent price cut on half of its models in June and the other half in September, and expected to sell very many cars in the interim period.

As long as buyers see large supplies on hand, they will buy only what they need at the moment. And, in some cases, they will even ration that demand, as they have these past months, anticipating a major price break in the near future.

But, putting this behind us, let's look ahead to what we can gain from our new strategy.

The most important element in making our program work is having the perseverence to stay with it. This means that we will have to continue to spend large amounts of money to support domestic farm income, while we seek to make a transition to real market-orientation. We have to maintain enough production to allow prices to fall globally for a long enough time to begin the long process of adjusting world supplies, or else surpluses will persist internationally, shielded by U.S. unilateral cutbacks.

We have to stop thinking about price as the barometer of our success in markets and start thinking about volume. We have to stop kidding ourselves about our comparative advantage as the lowest cost producer. We have lost much of this advantage and are fighting to regain it. Where the U.S. does have a continued advantage is in our efficiencies in moving agricultural products in volume from farm to export destination. We are the low cost volume exporter and the world knows this. Yet, all our programs to date have been directed against maintaining this competitive edge. The more we raise prices to satisfy someone who believes high prices are good, even when there is no one to buy the production except the U.S. Government, the more we reduce export potential.

Our export infrastructure is in serious danger of collapsing, and this vital asset will not be easy or inexpensive to rebuild. We cannot allow this to happen. That is why we have to move resolutely forward with our policy that will allow the market to find the level at which prices will clear. And, we have to pursue export initiatives to strengthen our market potential.

We can accomplish this in two ways--through market development and improving the trading system.

We must use our commercial credit programs and food aid programs to enhance the buying power of LDCs. We need to focus these efforts on middle income countries with high levels of debt and population growth, as well as the very poor countries who have tremendous potential to improve diets as their economies become more developed.

But most importantly, we must view this time of crisis in world agriculture as a tremendous opportunity to reform the international trading system. The pain of our own export subsidy policies and low price support regime is beginning to severely bite at the agricultural economies of other major exporting countries. This is good because it creates the incentive or the catalyst to seriously consider changes in the multilateral trading system.

All of our provisions under the 1985 Food Security Act to fight unfair trade practices through EEP and tea are important tools of our strategy. Yet, we cannot give in and allow these subsidies to be institutionalized and forget that they are just tactical "instruments" to be used in achieving our objective of making the world agricultural system an open and competitive marketplace.

There is no question that we need to respond directly to unfair practices, particularly those of the EC. However, just as our efforts alone cannot correct the oversupply problem, neither can our efforts alone correct the export problem we face.

There also is no question that as we do this, other countries will be hurt by our subsidies, just as they are hurt by those from the EC. This will broaden the base of support for building a bridge to reform.

I believe the stage is set for this to take place, and the U.S. should take the lead in immediately calling for a major meeting of those involved in both exports and imports to move effectively on developing a new approach for agricultural producers and markets.

We should use today's adversities to bring people to the bargaining table. This is not just in our own interest but others as well, as we too put our restrictive trade practices on the table for negotiation. We cannot preach the virtues of open markets without opening our own to real, fair competition.

We finally must remember that "trade is a two-way street". This may be an over-used expression, but is is one of the most important principles of trade policy. It is particularly relevant to expanding trade with developing and centrally planned countries who are strapped for hard currency. U.S. agriculture has long presented strong opposition to protectionism, but this has begun to severely erode in recent years. This is very dangerous and potentially very damaging to our own agricultural export potential. We cannot have discriminatory trade practices and expect markets to be open to our goods.

These are major obstacles to overcome, and we cannot expect to see tremendous gains over the short-term. However, it is not the time to be discouraged. Already, for the first time in recent history, all of the other major exporters, including the European Community, have agreed that we must do something about the massive domestic surpluses and subsidies which are exacerbating trade problems. This was stated by the leaders of the industrial world in both the communique of the Tokyo economic summit and in the communique from the OECD ministerial. We must move swiftly now to call for action and a commitment at the highest levels of government.

Agriculture is in a crisis today, but that crisis is the catalyst for the pain and the will to make the changes necessary to insure a viable future. This is not a time to turn back on the commitments made in the 1985 Food Security Act, but to utilize them to the fullest extent possible to open up the world agricultural marketplace.

Thank you.

STATEMENT OF MICHAEL L. HALL, EXECUTIVE VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Good morning. I'm Michael L. Hall, Executive Vice President of the National Corn Growers Association (NCGA). The members of our organization appreciate having the opportunity to testify before this subcommittee about our views on "Preparing for the GATT: A Review of Agricultural Trade Issues."

The National Corn Growers Association (NCGA) is a nonprofit, nonpartisan organization which represents the nation's 1.3 million corn farmers, and with the active support of State grower affiliate organizations in Colorado, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, Nebraska, North Carolina, Ohio, Pennsylvania, South Dakota, Tennessee, Virginia and Wisconsin. The purpose of the National Corn Growers Association is to enhance and expand the use, marketing, and efficient production of American corn.

In Chairman Helms' letter of July 23, 1986, inviting our organization to appear before you today, he specified several subjects and issues that should be discussed with respect to the overall purpose of these hearings: "Preparing for the GATT: A Review of Agricultural Trade Issues."

The 1985 Farm Bill: Has it increased competitiveness of U.S. agriculture? The answer to this question with respect to corn is clearly "No". The current farm bill provides for the authority to lower the loan rate for corn in order to become price competitive in world markets. Under the first annual reduction of the corn loan rate to $1.82 per bushel, the volume of corn export continues to decline on a weekly basis according to USDA export clearance reports. As a matter of fact, weekly corn shipment cleared for export only about several months ago were a record low of only 5.8 million bushels. For the subsequent weekly reports, the weekly clearance of corn for export have averaged around only 10 million bushels per week.

The 1985 Farm Bill provides the authority for subsequent annual reductions in the corn loan rate. If the farm bill is unchanged and the Secretary of Agriculture continues to reduce the corn loan rate as provided in the farm bill, then the export price of corn will ultimately reflect these lower loan rate values and should become more price competitive in world grain markets. It is the position of the National Corn growers Association that we do not--repeat, not--have the luxury of time to reduce annually the loan rate for corn during the next four years of the 1985 Farm Bill. If we are committed to become price competitive for corn in world markets, then the Secretary of Agriculture should implement other authorities in the 1985 Farm Bill in order for corn to become competitively priced immediately. That means that the "marketing loan" for corn must be implemented for the 1986/87 feed grain program. If the "marketing loan" for corn is not used for the 1986/87 season, we believe that a fixed corn loan rate as a reflection of corn export prices will continue to be undercut by competitor foreign grain exporting countries and that U.S. corn exports will continue to decline in each successive year.

According to USDA agricultural export statistics, corn exports for the 1985/86 season are calculated at only 1.1 billion bushels, a 31 percent decline from the 1.6 billion bushels at this time for the 1984/85 season. Because of this sharp decline in corn exports, ending stocks of corn for the 1985/86 season are forecast at just over 4.0 billion bushels. Because of the sharp price competitive for world grain markets and a soft domestic demand for corn for feed for many factors, the outlook for ending season stocks of corn for the 1986/87 season can safely be forecast at over 5.0 billion bushels of corn--a volume of corn that will severely strain our ability to finance storage and a volume of corn that will clearly exceed the average annual domestic consumption requirement for corn in the United States.

With respect to several other issues posed in Chairman Helms' letter of invitation to these hearings, our organization strongly urges your support in persuading the Reagan administration to implement all of the authorities in the 1985 Farm Bill in order to begin moving increasing volumes of corn and agricultural commodities into export markets. We urge especially the implementation of the "marketing loan" for corn in order to provide market flexibility for the export pricing of corn beginning with the 1986/87 feed grain season. If these export enhancement authorities of the 1985 Farm Bill are not immediately implemented and vigorous applied, then the current surplus problems in U.S. agricultural commodities will not only continue, but will increasingly become a permanent feature of our agricultural landscape.

If the export enhancement authorities of the 1985 Farm Bill are not implemented with commitment and vigorous, then we in the United States will not be "Preparing for the GATT." If we in the United States enter into international trade negotiations against the backdrop of less than one billion bushels of corn exports, we will enter such international trade negotiations in a very weak position. Unless the full resources of the U.S. Federal Government is in place in a commitment to the 1985 Farm Bill, and resulting in increased export volumes of U.S. corn and agricultural exports, what incentives and mechanisms will the United States have to use in negotiations with other foreign governments to reduce highly uneconomic export subsidies to simply dispose of surplus stocks in world market trade.

At the current time, the European Economic Community is providing excessive export subsidies for any number of agricultural commodities in the world marketplace. Such uneconomic level of export subsidies is simply a reflection of the more than two decades of annual increases in guaranteed income price support in Europe for agricultural production that cannot be consumed domestically or economically traded in world agricultural markets: grains, sugar, dairy, meats and other products. We in the United States note that forecasts for both acres and production for grains in Canada are at a record high level--following four years of various and excessive production reduction programs in the United States. We in the National Corn Growers Association know, too, that U.S. corn exports to South Korea have declined from over 3.0 million tons just five years ago to less than 300,000 tons during the current season. Although South Korea is importing the same level of grains, the U.S. grain exports to South Korea has simply been replaced by grain imports from the Peoples' Republic of China, Australia and Canada. Just several months ago, moreover, about 50,000 tons of feed barley from Britain were sold for export to South Korea--a simple result of the accession in the 1970's of Britain into the European Economic Community. British farmers substantially increased grain production, changing almost over night the traditional position of Britain from being a net importer of grains to a significant export of grains. This production response is again due to the artificially high guaranteed annual agricultural price increases provided for under the "common agricultural policy" of the European Economic Community.

And, as we in the United States consider and plan for our "Preparing for the GATT", we are also faced with the trade and production consequences of a further enlargement of the European Economic Community (EEC)--the inclusion of Spain and Portugal. Will the artificially high EEC domestic income price supports for grains and agricultural production result in a similar grain and agricultural response in Spain and Portugal as we have witnessed in Britain?

And coupled with the prospects of increased grain and agricultural production in Spain and Portugal because of the European Economic Community (EEC) incentives under the common agricultural policy, U.S. corn farmers will lose at least three million tons of annual corn exports alone to spain because of the high protectionist import features of the EEC common agricultural policy. It must be understood that for the EEC common agricultural policy to work for European farmers--and now Spanish and Portuguese farmers--that they are guaranteed a basic intervention support price for wheat at $5.76 per bushel and for feed grains at $5.43 per bushel. In order to protect such artificially high internal price supports for increasing quantities of domestic EEC grain production, the European Economic Community protects its domestic market from any outside price competition. At the current time, USDA reports that the European Economic Community imposes an import duty (levy) of $4.18 per bushel for any wheat import offer and $3.73 per bushel for any corn import offer to the European Economic Community.

With such import barriers so high in the European Economic Community and export subsidies equally as high at the import duty (levy), U.S. corn farmers have little hope of looking to European for expansion of corn export and great frustration of looking to third-country markets for fair competition with the highly subsidized European grain exports.

Even now before an international commitment to a mandate to govern the beginning of a new round of international trade negotiations, U.S. agricultural exports are under attack in various forms from the major agricultural producing and exporting countries. The Canadian government has begun a preliminary investigation into allegations that U.S. corn farmers are subsidized in various fashions with a view towards imposing countervailing import duties against U.S. corn exports to Canada. Such allegations by Canadian corn producers and the willingness of the Canadian government to attempt to investigate such allegations is paradoxical in the face of no forecast of U.S. corn exports to Canada, all the while Canadian corn is being imported into the United States at prices estimated to be at least 15 cents per bushel below local cash prices in Ohio, Indiana and Pennsylvania.

At the mere mention of expanding the U.S. export enhancement program to include all traditional foreign customers for U.S. grain, various foreign competitor countries mount an informal campaign supported by Australia, Canada, Argentina and others to come to the United States to lobby against such an expansion of a rather ineffective U.S. export program. And even in the United States, various cabinet level officials in the United States argue against any expansion of our agricultural export program on the basis that such programs will be counter productive for U.S. foreign policy and military objectives in various overseas areas. It really seems to American farmers that such initiatives by major foreign agricultural producing countries are being designed in order to prepare "...the agenda for the United States for any future GATT negotiations."

The underlying premise of the 1985 Farm Bill is to provide for adjustments in Federal Government support for U.S. agriculture while simultaneously regaining export competitiveness in world markets. With this in mind and while the 1985 Farm Bill is in force, the United States must press in any international round of trade negotiations to achieve several goals: (1) reduction of foreign government resources to increased grain and agricultural production and (2) a commitment from the major foreign agricultural producing countries to enter into an international export to expand food export assistance programs to developing countries unable to either purchase with cash or to finance with credit the basic food import requirements for such countries. Such a twin goal of international trade negotiations--if obtainable--would begin to resolve the paradox of the excessive food production in developed countries and the shortfall in basic nutritional food import requirements of developing countries. Both goals must be pursued simultaneously and with commitment: the adjustment of foreign government price supports as incentives for excessive grain and agricultural production in the developed countries while putting into place under international negotiations a commitment to increase demand and consumption of food in developing countries.

We appreciate having this opportunity to appear before you today, and I will attempt to answer any questions that you may have about our testimony.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT RICE MILLERS' ASSOCIATION

Mr. Chairman, my name is J. Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA). Established in 1899, the RMA represents independent rice milling firms and farmer-owned cooperative rice mills, with facilities in Arkansas, California, Florida, Louisiana, Mississippi and Texas, RMA members process virtually all of the rice produced in the United States and sell significant quantities of rice directly to the export market.

In 1980, after several years of poor world rice crops and high world rice prices, the conventional wisdom was that a basic change had taken place in world supply and demand for rice, that the world's rice import requirements would continue to grow indefinitely and that the United States would expand its market share. In 1985, after several years of above-average world rice crops and low world rice prices, the conventional wisdom was that a basic change had taken place in world supply and demand for rice, that the world's rice import requirements would decline and that the United States would be unable to recapture its lost market share.

The fact is that forces affecting world supply and demand for rice and both cyclical and secular in nature. Basic changes in supply and demand are always taking place.

Despite technological advances in rice varieties and production techniques, weather remains principally responsible for large swings in production and prices. World population increases each year; the highest rates of growth are concentrated among rice consumers.

In appraising the outlook for U.S. rice in world markets, one must differentiate between those forces that determine aggregate world import requirements--forces over which the United States has little or no influence--and forces that determine how and to what extent the United States will participate in that total world import market.

In 1980, shortfalls in supply fostered an overly optimistic outlook. Onward and upward, said most forecasters. Rice farm policy in the United States only contemplated continuing growth. Those instrumental in fashioning a rice program did not countenance a downside. As a result, a U.S. rice policy was adopted in 1981 that did to have enough flexibility.

Better-than-average growing weather resulted in bigger crops abroad. Export sales were denominated in dollars. As the dollar's value rose, rice became more expensive for importing nations to purchase.

Lower rice demand and greater supplies pushed prices below the level at which the U.S. Government was supporting prices in the United States. Consequently, under the price-support program, U.S. growers in effect sold to the government rather than to the world market. Importing nations looked to other nations as their primary source of rice.

As world rice import requirements declined, U.S. market share also fell from 24 percent in 1980 to 16 percent in 1985.

The rice policies of competing nations were not hampered by a high, fixed domestic floor price; rather they were abetted by a

U.S. rice policy that effectively forced this country out of the world market.

While exports from other nations soared, U.S. exports fell from 3 million metric tons in 1981 to 1.8 million 1985. In particular, the high U.S. loan rate kept U.S. rice from staying price-competitive with Thai rice whose shipments rose from 2.7 million mt in 1980 to 4 million mt in 1985.

Global forces responsible for the reduction in world import requirements during 1981/85 included better-than-average weather, which caused production to increase faster than usual; a worldwide recession; the Third World debt crisis; declining oil prices that placed financial strains on such importers as Saudi Arabia and Nigeria; high interest rates that made it difficult to borrow for rice purchases; and a strong dollar.

These factors that caused the world import pie to shrink were beyond U.S. control. In contrast, the loss in market share by the United States was the result of the high loan rates set by the 1981 farm act, which kept U.S. rice prices at non-competitive levels.

The 1985 farm act reduces support prices for U.S. rice. They will decline to a maximum of $7.20 per 100 pounds (cwt) in 1986-87, from the current $8.00, and eventually to a low of $6.50.

It also allows farmers to repay their price-support loans at world prices. Through this market-oriented procedure, competitivness of U.S. rice will be restored as the incentive to forfeit rice to the government, rather than sell on the world market, is eliminated.

On April 15, 1986, the farm act's rice provisions were retroactively applied to the 1985 crop. With the rice marketing year ending July 31, 1986, the new rice marketing loan program faced several formidable marketing challenges on April 15: (1) USDA projected large 1985 crop loan forfeitures; (2) CCC's rice inventory was estimated to swell to a record 71.7 million cwt of rough rice; and (3) exports were expected to reach their lowest level in years.

In addition to these marketing challenges, there were also significant bureaucratic hurdles to overcome. USDA would be implementing a totally new concept with minimal precedent for guidance. FAS and ASCS personnel would have to publicly announce, on a regular basis, the prevailing world market price for rice, which would become the loan repayment rate. ASCS would have to quickly translate the legislation into directives that would instruct state and county offices how to implement the new program. As if these obstacles were not enough, the Department's implementation would be carried out in the face of an awakening realization on the part of foreign policy and national security segments of our government, that the new rice marketing loan program had the potential to create foreign and trade policy problems.

Despite all of these problems with the new program's implementation and despite the dire predictions about the program's impact on our foreign competitors, the rice marketing loan program's performance during the past three and a half months has exceeded expectations.

Forfeitures of the 1985 crop are currently expected to be only about 10.0 million cwt compared to the 28.0 million cwt predicted by USDA as late as June. This significant forfeiture reduction represents a dramatic reversal in the trend of the past several years. During the past 60 days, more than 11.0 million cwt of 1984 crop rice have been purchased from CCC through the use of generic certificates. As a result, the USDA's July 1986 supply/demand estimates reduced July 31, 1986 CCC-owned projected ending stocks by fifty percent.

On the utilization side, rice exports are soaring. USDA now expects that 1986/87 exports will increase by forty-five percent compared to 1985/86. We believe that actual exports will be even higher. The following table, using USDA's Report of Shipped and Unshipped Export sales as a source, illustrates the impact of the marketing loan program on rice exports.

TOTAL RICE
EXPORTS AND OUTSTANDING SALES

	1984/85 1/	1985/86	
	(Metric Tons)		
8/1-4/12	1,626,000	1,239,000	-24%
4/13-7/17	362,000	748,000	+107%

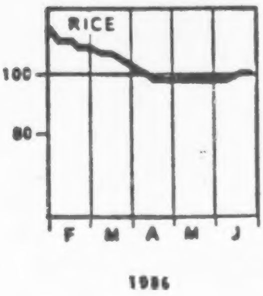
TOTAL OUTSTANDING SALES REPORTED
FOR SHIPMENT NEXT MARKETING YEAR

	1985/86	1986/87	
	(Metric Tons)		
As of 7/17	96,000	252,000	+162%
4/12-7/17	458,000	998,000	+118%

This dramatic turnaround has given hope to all segments of the rice industry. As I travel around the rice states, I can clearly sense for the first time, a mood of optimism that pervades the local coffee shops where farmers gather and the offices of farmer-cooperative and independently-owned rice mills. Bankers, truckers, local businessmen, elevator operators, exporters, brokers, and shippers are experiencing the positive impact of renewed economic activity. As one of my farmer-cooperative members recently told me: "for the first time in four years our phones are ringing off the hook...people want to buy our rice."

Mr. Chairman, the material impact of the rice marketing loan program on our overseas competitors has been minimized by the United States' careful implementation of the program and the expansion of the total international rice market. USDA has taken great care not to engage in predatory pricing of U.S. rice in international markets. Since announcing the world price for rice in mid-April, the United States has followed, rather than led world rice prices. In fact, USDA has actually maintained a differential between U.S. and competitors' prices, with U.S. prices set at a premium. Evidence of the impact of USDA's careful determination of the prevailing world prices can be seen in the following chart published by the United Nation's Food and Agricultural Organization (FAO). It clearly shows what has happened to international prices during the period February-June 1986; they have stabilized and started to increase.

EXPORT PRICES
(July 1985 = 100)



Regarding the impact of the rice marketing loan program on Thailand, our major foreign competitor, attached to this statement is an analysis of the farm act's effects on Thai rice. We recommend your review of this document, which was released by the U.S. Embassy in Bangkok, Thailand. The paper was authored by Mr. Tom Slayton, our agricultural attache in Bangkok. Mr. Slayton, effectively clears away the misinformation and politically-motivated hysteria that have prevailed over rational thinking during the past six months and blown the rice marketing loan program's impact on international trade totally out of proportion.

Mr. Chairman, the new rice marketing loan program is a bold and innovative departure from policies of the past that have proven to be ineffective. The new program will provide for an orderly transition from dependence on government to reliance on the market place. This can only be accomplished over a number of years in order to ease the impact of that adjustment on U.S. farmers now suffering from an agricultural depression.

Thank you Mr. Chairman for providing this opportunity to testify today. We would be happy to answer any questions.

[The following material is an analysis of the effects of the Farm Bill on Thai rice, authored by Mr. Tom Slayton, Agricultural Attache, American Embassy of Bangkok]

"Farm Act to Hurt Exports of 2,000 Million Tons of Thai Rice" (April 14)..."Cabinet Labels U.S. a 'Bully." (April 16)...screamed the newspaper headlines. Over the last six months, the Thai newspapers and government have been predicting that Thailand's rice-based economy would be "devastated" by effects of increased competition from U.S. rice as the result of the Food Security Act of 1985 (more popularly known as the Farm Act). With two months having passed since the implementation of the rice title of the farm act, it is now, perhaps, possible to more accurately and objectively assess the likely impact of the law on Thailand.

Based on information now available, it appears that Thai rice exports will actually increase this year to 4.3 million tons--Thailand's second best year ever. In the absence of the farm act, it is unlikely that Thai rice exports would have exceeded 4.5 million tons. Export earnings may decline by $105-130 million, but only part of this can be traced to the effects of heightened competition from the U.S. Rather, the decline in low-quality rice prices and the shift in the composition of the exports to more medium- and low-quality rice are equally, if not more, important factors. Indeed, much of the decline in paddy prices received by farmers this year can be traced to the sharp decline realized in the price of broken rice.

Expected "loss" in export volume.

In January, a committee of the Board of Trade estimated that Thai rice exports to the Middle East and Africa would decline by 1.0-1.5 million tons and that foreign exchange earnings from rice exports would fall by 6 billion baht (roughly $228 million at today's exchange rate). As total Thai rice exports to Africa and the Middle East in 1985 were 1.95 million tons, a projection that at least half of them would be lost, before it was clear what the farm act really meant was a calculated effort to galvanize the Thai government into action. (With key policy decisions on implementing the law to occur much latter, i.e., how much rice land would be idle in the U.S. and whether or not U.S. Government-held stocks would be released via negotiable marketing certificates (NMC's), it was not possible to definitively rule out such projections. Rather, all that an objective analyst could say was that the forecasts looked "highly pessimistic." Quickly, however, this crude and highly speculative forecast gained wide acceptance.

With the decision to require the idling of the maximum 35 percent of the U.S. rice land permitted by the law and the determination not to use NMC's for the 1985 and 1986 rice crops, Thai estimates of projected losses began to slowly come down. (Now, for example, the ministry of commerce estimates that Thai rice exports will reach 4.0 million tons in 1986--the same level as was shipped last year--vs. an earlier target of 4.3 million tons.) Unfortunately for the Thai-U.S. bilateral relations, there was not a commensurate scaling down in the rhetoric that accompanied these more conservative estimates.

Based on export performance to date, it is now clear to most informed observers of the Thai rice market that shipments in 1986 will top 4.0 million tons. Indeed, it now seems likely that exports will reach 4.2 million tons and may actually reach 4.3 million tons!

Despite the disappointing January performance resulting from market uncertainty emanating from the ill-fated paddy support scheme sponsored by the former minister of commerce and the restrictive export regulations issued in early January, Thai rice exports during the first five months reached over 2.1 million tons--76,000 tons ahead to that shipped during the same period last year. Shipments of 252,000 tons during the first 17 days of June point to a likely export movement of over 400,000 tons this month with the result that exports will top by over 250,000 tons the 2.3 million tons shipped in the first half of 1985.

Given the disappointing export volume of 269,000 tons in July last year and a very conservative projection of 300,000 tons being shipped this July, the cumulative volume shipped by the end of July will outstrip last year's by more than 280,000 tons. For Thai rice exports to match last year's performance, they need only to average 250,000 tons per month. It is more likely, on the other hand, that they will average at least 300,000 tons per month during the second half of 1986. If this conservative level is achieved, exports for the year will reach 4.3 million tons--the second largest volume ever shipped and nearly 6 percent ahead of that exported last year.

Absent the U.S. farm act, it is unlikely that Thai rice exports in 1986 would have topped 4.5 million tons. Indeed, if Thai exporters capture a significant share of the Brazilian import demand which currently seems to be materializing, exports of 4.5 million tons cannot be completely ruled out. Should Brazil import one million tons of rice in 1986, including 200,000 tons from the U.S., the "loss" to Thailand might be more on the order of 400,000 tons.

Why the lower export earnings?

Implicitly acknowledging that overall export volumes do not support the thesis that Thailand's exports are being savaged by the farm act, some observers instead point to the decline in export earnings and the fall off in shipments of high-quality rice. According to ministry of commerce data, rice earnings have declined by 20 percent to 9.6 billion baht for the five month period ending in May. The uniformed may quickly jump to the conclusion that rice export prices must have fallen by 23 percent, more than offsetting the gain in volume shipped. Unfortunately, few things in the rice trade are very straightforward given the myriad grades of rice sold.

Most of the decline in Thai rice export earnings this year can be traced to two factors: the dramatic decline in prices of low-quality rice, e.g., A-1 special brokens are currently selling at slightly more than $100 per ton or 32 percent below the level being traded in mid-June last year; and, the shift this year in overseas demand to medium- and low-quality rice. These two factors are more important than the decline in average export prices for high-quality rice which is in competition with U.S. rice.

That there has been a decline in rice prices is not in dispute. The normal seasonal pattern is for Thai rice prices to peak immediately prior to the main season harvest and then decline until about May. Over the last several months, prices of 100 percent B have declined from a pre-harvest high of $215 in October. Thai 100 percent B is selling today at $180-182 per ton or about 10 percent below the level being traded one year ago. This may be part of a longer trend in declining rice prices over the last five years. For example, in June 1985 the price was 21 percent below that traded in mid-June of 1984 and this was pre-farm act!

The shift in qualities exported this year (through May, high-quality white rice exports are down 211,000 tons, but shipments of medium-quality white rice were up 205,000 tons and low-quality white rice and brokens were up 92,000 tons and 194,000 tons, respectively) reflects highly competitive prices for low-quality rice, stepped up total imports by medium-quality rice purchasers such as Brazil which will import more rice this year than last, and a fall off in purchases of high-quality rice.

Let us examine each of these items separately. The prices of brokens are very cheap this year because of an increase in supply (more on this later.) The year-over-year price decline is particularly sharp because last year the prices were kept artificially high by a minimum export price on sales of brokens in excess of 2,000 tons. The latter policy (which could be dubbed the "Pallachi Rule") greatly restricted exports of Thai brokens last year with the result that they declined 379,000 tons from the 959,000 tons shipped in 1984. In past years, Thailand was able to separately market overseas the head rice (unbroken kernels) and brokens that are produced in the process of milling. Thailand left overseas demand for rice with 25 percent and 35 percent brokens to its Asian competitors. Due to the fall off in sales of high-quality rice (with few brokens) and an abundant supply of brokens, exporters this year are remixing the two together and are offering Thai 25 percent and 35 percent rice at very competitive prices.

The increase in exports of medium-quality rice reflects increased overall imports by Brazil in general this year and shipments of Thai rice in particular during the first five months of 1986 compared to the same period last year.

While it is undoubtedly true that some rice buyers (especially former importers of U.S. rice in Europe) delayed ordering Thai rice in anticipation of lower U.S. prices, an examination of the shipment data through May shows that high-quality rice exports fell due primarily to lower shipments to Syria, Iran and Malaysia. Shipments to these three countries fell 253,000 tons, with the drop in shipments to Malaysia alone accounting for 83 percent of the 211,000 tons decline in Thai high-quality rice shipments. In the Iranian case where export liftings declined 24,000 tons, no U.S. rice exports have been recorded since 1982. Given Iran's political aversion to the U.S., it seems more plausible that declining petro dollar earnings and protracted efforts to push Thailand to import Iranian oil, rather than purchasing delays in order to benefit from lower U.S. rice prices, are the underlying reasons for Iran's reduced liftings of Thai rice.

Notwithstanding rumors to the contrary, Malaysia has a long-standing policy of giving preference to government-to-government (G to G) rice contracts and no significant sales of U.S. rice have been recorded since 1975. Rather, the slow down in Malaysian imports is from an unusually high level last year. The lower volume shipped this year is probably due to high carry-over stocks, protracted negotiations to obtain a revision in the price contained in the existing G to G contract, and an increase in rice production this year. Hence, the 175,000 ton decline in shipments to Malaysia.

It is not readily clear why the exports to Syria have fallen off so sharply (down 57,000 tons) this year. As in the case of Malaysia, the level exported in early 1985 far exceeded that of previous years. (For example, Thai rice exports to Syria averaged 18,000 tons in the first five months of 1983 and 1984, but they surged to 69,000 tons in the first five months of 1985.)

It takes both a buyer and a seller to have a contract and, thus far this year, the buyers of high-quality rice have been few and far between. For example, total U.S. rice exports through May are down an estimated 27 percent over year earlier performance. Of the four largest rice exporting countries for which data is available, only the U.S. shipped less rice this year to date compared to last. Thailand, Burma and Pakistan all shipped more rice.

Thai rice export earnings in 1986 will likely total $700-725 million in 1986 or a decline of $105-130 million (not more than 3.4 billion baht--a far cry from the six billion baht forecast by the B.O.T. in January). The forecast is based on export earnings to date and the following assumptions: A) 400,000 tons will be shipped in June and monthly shipments will average 300,000 tons for the balance of the year; B) the mix of rice exported will remain essentially unchanged from that shipped in the first five months; and C) average export prices do not decline further by more than 5 percent during June-December. Should large-scale Brazilian demand materialize in the third quarter, the decline in export earnings (if there even is one) could be significantly smaller.

The farmers' burden

As Thailand is by far the world's largest exporter of brokens (providing well over half of the world's trade) and the U.S. does not normally export any significant amount of brokens (it is an ingredient in U.S. beer brewed by Anheuser Busch and Coors--a course of action which Thailand should give serious consideration), blame for low prices for brokens cannot be ascribed to the U.S. rather, the precipitous fall is due to a combination of man-made and natural misfortunes.

Carryover stocks of broken rice were unusually high this year due to two policy missteps made by the ministry of commerce. In an unsuccessful effort to bolster the price of brokens and to penalize the world's largest rice trading house for having speculatively sold broken rice very cheaply to Senegal, the government adopted a minimum export sales price on export orders exceeding 2,000 tons. In the end, the system had to be abandoned as the price had gradually dropped to the level sold by the French traders to Senegal and the Thai government was anxious to conclude a government to government contract with that country. In the process, however, important sales to Senegal and other destinations were lost and large unsold stocks of brokens were available in the market. Carryover stocks of brokens were also unusually high due to the government's policy of requiring exporters to hold stocks as a condition of obtaining export quotas. As the government did not specify the grade of rice which must be stocked, most exporters stocked the cheapest grade of rice available (brokens) above their normally working stock requirements. Some participants in the rice trade estimate that carryover stocks of broken rice approached one million tons.

Unfortunately, the quality of the main season crop was low due to poor weather with the result that the price of brokens collapsed to a level where it's currently displacing corn in the Thai feed ration and it's being sold in record quantities to starch manufacturers, brewers, and (perhaps) feed manufacturers in Europe.

While export prices of high-quality rice have held up reasonably well thus far this year, paddy prices have collapsed despite the elimination of all export duties and premiums. Normally, one would have thought that the slashing of government export taxes would have partially buffered the decline in paddy prices. This, however, was not the case this year. Indeed, ministry of agriculture data shows that farm gate prices of 5 percent paddy in May averaged only 2,162 baht per ton--25 percent below that received one year earlier. Similarly, prices recorded at Kamnan song's paddy market in Nakhon Sawan show that 5 percent paddy garnered only 2,000-2,250 baht per ton in May or roughly 28 percent below the 2,890-3050 baht received during the same month last year.

What happened? A large number of rice mills closed their doors in 1985 due to heavy losses and did not resume milling this year.

Further, rice millers interviewed in November (some two-four weeks before the first story appeared in the Thai press that a new farm bill was being passed in the U.S.) indicated that due to recurring years of serious losses, they would switch their paddy purchasing practices to buying only hand to mouth rather than buying large quantities of paddy at harvest and milling it during the course of the year. Finally, lack of confidence in the government's support price scheme, which had for the first time criminal penalties if the millers paid less than the minimum price, also must have discouraged some rice millers from buying the farmers' paddy. Rather, many millers, who had not already gone broke, closed their doors until the scheme was aborted. When the scheme was abandoned, the millers did not rush out to buy paddy because of slack demand from the exporters who were no longer required to hold stocks and were advised by the government to quickly sell (in a weak market) their excess stock holdings prior to the April 15 implementation of the rice title of the farm act.

Even after these unusually high stock levels had been worked off, the millers did not rush out to buy the incredibly cheap paddy because the milled rice prices were below their replacement costs. Further, one can well speculate that the alarmist statements about the likely effect of the farm act did not exactly encourage millers to hold anything other than the barest minimum level of stocks. Consequently, an unusually large share of the wet season crop is still in the hands of the paddy merchants. Hence, the more pronounced decline in paddy vs. rice export prices. Of equal importance is the effect of low brokens prices on paddy prices. A ton of 5 percent paddy would normally yield about 660 kg of milled rice including approximately 300 kg of brokens. Depressed brokens prices pull down the price of paddy. Further, to the extent that a farmer was marketing low-quality paddy, the effect of the low price for brokens would be even more pronounced.

There is little doubt that the Thai rice farmer is being greatly squeezed this year as a result of the low paddy price received. However, the extent to which the farm act is the culprit has been greatly exaggerated. Fortunately, for some, it is a convenient scapegoat.

So why the misunderstanding?

An objective analysis of the market indicates that the economic impact of the farm act on the Thai rice sector is far less than commonly believed. Why the misunderstanding? The reasons are many, but an ignorance of the facts, cultural tendencies, and local politics all play a role.

First, there is a lack of accurate information available. Despite the overriding importance of rice exports to the Thai economy, only a small number of Thai government officials and academics really understand how the market functions and what is currently happening and why. (This lack of understanding is not unique to Thailand.) The rice trade is not an easy activity to follow. This is not particularly surprising given the closed nature and complexity of the rice trade. For example, unlike other major commodities, rice is unique in that there is no readily available benchmark as to the current market prices. This is in part a function of the wide array of rice grades and packing specifications involved. The price relationship between different grades of rice and different origins are not fixed and can diverge. There is no single "price of rice." In addition, while in the past the weekly Thai board of trade price was widely recognized as a rough barometer of price levels, in recent years it has lost all its credibility with the example, the posted B.O.T. price for 100 percent grade B is $220 per ton (in 100 kg bags), but the actual market has not been at this level since October 1984. Rather, recently, Brazil has bought this quality of rice at a price of $180 per ton. This lack of a universally accepted, published source of market information has led to the dissemination of widely divergent claims and counter claims concerning the actual impact of the farm act.

Secondly, the very importance of rice in the Thai culture and the Thai economy also complicates the dissemination of whatever factual information is available. The propensity to believe what one wants to believe, present in all cultures on all issues, is particularly strong when discussing rice in Thailand. Further, there is often a tendency to believe the most pessimistic account presented. As the role of rice in Thailand goes far beyond the purely economic, the perception that the U.S. would try to harm Thailand's rice exports outraged many, regardless of the actual economic impact. Many have acted as if to say "don't bother me with the facts, I want to vent my feelings!"

Thirdly, the U.S. may have inadvertently given opponents of the rice title of the farm act a vested interest in exagerating its effects. Being a close friend and ally of the U.S., Thai commentators, privately and publicly, correctly sensed that the United States had no desire or intention to hurt Thailand. They sensed that the more serious the adverse effects on Thailand's economy or security, the greater chances that the U.S. would modify the legislation or somehow soften its impact administratively. Therefore, they had an interest in believing the worst and using worst case senarios to get the attention of Thailand's friends in the U.S.

Because of this lack of market transparency, it has been easy for both casual observers of the rice trade and Charlatans to blithely charge that U.S. rice is being sold at predatory prices near or below those of comparable quality Thai rice. Regardless of the motives or basis, the net effect has been a Thai perception that the U.S. is wreaking havoc with Thai exports and the resulting backlash in public opinion.

In this regard, the highly publicized determination in mid-April that the first U.S. rice export prices were within $30 per ton of top-quality Thai white rice was pure fiction. Indeed, the actual price spread was closer to $66 per ton as 105,000 tons of U.S. rice was subsequently sold to Iraq at an average price of $242 per ton FOB compared to a Thai market price at the time of $175-176 for 100 percent, grade B. Further, although both Thailand and the U.S. compete with each other for sales of high-quality parboiled rice, the price gap of over $100 per ton between 5 percent and U.S. #2/4 percent parboiled long grain was completely ignored even though 28 percent of the U.S. rice exported in 1985 and 18 percent of the Thai rice shipped was high-quality parboiled rice. Thus, while the public diplomacy efforts roll forward in the hopes of striking a "better deal", public perceptions are, perhaps, unalterably changed.

Assertions have been made that the U.S. has not fulfilled the assurances given to Thailand regarding the implementation of the farm act. These assurances have been and continue to be honored. Simply stated, the U.S. said that it would not engage in predatory pricing (that is, it would build into the U.S. price the maximum premium that the market would permit while still accomplishing the central goal of increasing U.S. rice exports) and that it would follow (not lead) world price movements. These principles were intended to ameliorate the effect of the farm act on Thailand and other rice exporters. Never was Thailand told that there would be "no effect" on Thai rice exports. (Anyone who believed this was engaged in wishful thinking as the stated intention of the law is to increase U.S. rice exports.) Nor did the U.S. ever agree to build into the world price formula a specific fixed premium vis-a-vis Thai rice.

Heeding Thai demands, a significant premium be built into the pricing formula through which the loan repayment rates are set under the new law, the initial price spread (which was about $98 per ton for bagged U.S. #2/4 percent long grain and Thai 100 percent grade B delivered Rotterdam), however, proved to be more of a premium that the commercial market was willing to pay. Consequently, after holding the premium at approximately this level for a month, USDA found it necessary to drop the loan repayment rate by 12 percent in mid-May. This action resulted in prices of U.S. #2/4 percent declining $25 to a premium of $65 over Thai in the West European market. Over the last several weeks, although the loan repayment rate has largely remained unchanged, the spread has narrowed to $43 in large part due to U.S. millers and exporters apparently cutting their profit margins in order to secure new orders.

The popular image is that the pricing formula used to set the floor under U.S. paddy prices is based on erroneous data and that U.S. prices have dropped sharply and continuously since April 15. Regarding the pricing formula, despite official statements to the effect that some values used in the formula are allegedly "inflated" by up to 20 percent, no data has been produced to support this often-stated contention. Indeed, the U.S. Secretary of Agriculture more than one and a half months ago stated that USDA would be more than happy to review any data that the Thai government wanted to submit. Despite all the statements by officials to the press, no data have been provided.

Similarly, the popular perception of sharp and continuous drops is not entirely accurate either. The "sharp" drop has in fact been one of 15 percent from the original level announced. (The decline in export prices has been less as the milling and handling costs have remained unchanged while the raw material--paddy--costs have declined.) Further, of the ten price announcements made since mid-April, only five of them were lower than that announced for the preceding week. Indeed, the loan repayment rates have been unchanged since May 27.

Sparks Commodities, Inc.

Statement Submitted by

Carroll G. Brunthaver

Vice President, Sparks Commodities, Inc.

on

A REVIEW OF AGRICULTURAL TRADE ISSUES

before

The Senate Agricultural Sub-Committee

On Foreign Agricultural Policy

July 29, 1986

I have been asked by Senator Helms and Senator Boschwitz to review the following three aspects of the Food Security Act of 1985:

(1) Has the 1985 Act changed the competitive position of US agriculture?

(2) What modifications in the 1985 Act are needed to improve the competitiveness of American agriculture?

(3) Is the current surplus problem transitory or permanent?

US COMPETITIVE POSITION

There should be little question that the competitive position of the US grain, soybeans, cotton and rice has changed sharply with the enactment of the Food Security Act of 1985.

The magnitude of this change cannot be seen by solely comparing the loan rates before and after enactment.

The competitiveness of US agriculture during the late 1970's and early 1980's was affected not only by high loan levels but perhaps more adversely, by large acreage diversions and high release prices of loan, reserve and CCC owned grains.

From 1978 - 1986, the US idled 223 million acres of cropland. Yearly totals are shown in the following table:

US CROPLAND IDLED UNDER VARIOUS GOVERNMENT PROGRAMS

COMMODITY	1978	1979	1980	1981	1982	1983	1984	1985	1986
	------------------million acres------------------------								
Feed Grain	8280	2522	0	0	3815	39383	4964	7120	19270
Wheat	8392	7229	0	0	6564	30015	18450	18791	20922
Rice	0	0	0	0	465	1826	785	1240	1369
Cotton	916	0	0	0	1786	6804	2440	3593	3551
Con Res.	0	0	0	0	0	0	0	0	3831
TOTAL	17588	9751	0	0	12630	78028	26639	30744	48943

In 1983 when the USDA contracted with farmers to retire 78 million acres of cropland, drought developed to force US prices to very high levels because CCC and reserve stocks could not be sold to make up for the artificial shortage created by the land retirement and drought.

The comparison of the CCC sales price and the loan level for 1983 commodities is compared in the table below:

1983 CCC SALES PRICE & LOAN LEVELS

Commodity	CCC Sales Price	Loan Levels
Wheat	$ 6.57	$ 3.65
Corn	$ 3.58	$ 2.65
Soybeans	$ 6.17	$ 5.02
Cotton	$ .69	$ .55

1985 ACT CHANGES

The 1985 Act not only lowered the price support loan level, but also removed the threat that large ARP, paid diversion, drought combined with strong demand would make US farm products uncompetitive by reason of government land retirement programs.

Authority is contained in the 1985 Act to issue to complying farmers generic certificates as part of the deficiency payments that can be used by farmers or the trade to redeem loan, reserve or CCC stocks not at a formula price above the loan rate but at market prices as determined by CCC, even if those prices are below the loan rate.

As a result, the sales price of CCC grain at present is far below 1983 levels as indicated by the following table:

	1983		1986	
COMMODITY	CCC Sales Price	Loan	CCC Sales Price**	Loan
Wheat (bu)	$ 6.57	$ 3.65	$ 1.99	$ 2.30
Corn (bu)	$ 3.58	$ 2.65	$ 1.75	$ 1.84
Soybeans (bu)	$ 6.17	$ 5.02	$ 4.93	$ 4.56*
Cotton (lb)	$ .69*	$ .55	$ .225	$ .526

* - Estimate
** - These prices may be reduced in the future.

This change is a clear signal to foreign competitors that US prices will stay competitive regardless of the amount of land taken out of production in the US until such time that the CCC, loan and reserve stocks are depleted.

Another measure of the competitiveness of US grain is the amount of export subsidy required to export EEC wheat at present compared with 1983 values.

WHEAT SUBSIDY REQUIRED TO SELL EEC WHEAT	
July 14, 1983	$26.16*
July, 1986	$100 - $120 bid

* - Sale on 7/14/83 for 370 TMT @ 29.49 ecu or $26.16

The current subsidy required to move EC wheat exceeds the value of the wheat.

The effect this is having on the ability of the EC to continue to finance high grain price supports in Europe can be seen in the next table:

EEC GRAIN IMPORTS AND EXPORTS
AND
RESULTING NET REVENUES FROM DUTIES LESS EXPORT SUBSIDY

	1979	1983	1984	1985	1986**
	------------ million tons				--------------
Imports	18.5	9.8	6.8	7.0	7.0
Exports	0	9.8	17.0	17.0	17.0
	------------- million $				----------------
Revenues*	895	61	0	-210	-700

* Duties - Export Subsidy
** SCI Estimate

The collection of duties on the importation of 18.5 million tons of grain in 1979 resulted in a positive contribution of $895 million to the EC budget. In 1986, with imports down, exports up and export subsidies sharply higher, the revenue surplus has become a negative of $700 million. In 1987, this deficit is expected to exceed $1 billion. This short fall to the EC budget and the continuation of the heavy subsidy makes it more difficult to continue the large subsidy to EC producers.

For the first time since 1972, the world market signal is changed from "produce grain" to "use grain". Livestock production opportunities worldwide should increase to produce a higher standard of living and will, over time, stimulate demand for grain.

A further measure of competitive change is to compare the landed values of US corn at southeast Asian ports this fall compared with 1983 values:

LANDED VALUES US CORN / SE ASIA	
1983	$153.50
1986	$ 87.50

The difference reflects the reduced cost of feed to prospective commercial broiler and hog operations in southeast Asia. It also reflects incentives for China and Australia to produce grain for export.

MODIFICATIONS TO IMPROVE COMPETITIVENESS OF US AGRICULTURE

With emphasis on low cost competition, it is imperative that the legislation do everything possible to help lower per unit production costs. Specific attention should be given to the rules relating to bases and yields.

In effect, producers must plant their entire bases less ARP to receive full payments to protect their bases for programs in the future. The 50 - 92 provision is not effective since the producers cannot plant most alternative crops available to him.

If the objective is to increase the competitive position of American farmers, then we need to ask why Congress is trying to force farmers to plant a particular crop they may have produced in the past under different economic conditions regardless of the present economics of production or the current price signal simply so that the producer will get his full share of government payments. Worse, why are we encouraging farmers to plant a certain crop regardless of the economics, so that his base and therefore, government payments will be larger next year.

Payments need to be untied from current plantings and future changes in bases. Planting decisions need to be based and the current opportunities and price signals that may maximize the individuals producers net income.

The same consideration needs to be examined relative to farm program yields. American agriculture may be more competitive if producers are allowed and encouraged to minimize the per unit cost of production rather than continuing to maximize yields so that next year's program payments will be larger.

CURRENT SURPLUS PROBLEMS --- TRANSITIONAL?

The US corn surplus may prove the most difficult of all the US grains to resolve in the short term. ASCS has permitted some producers to increase their corn base for 1986 crops. This has added to the surplus situation in corn in that producers find it to their advantage to produce corn for the government target price of $3.03 per bushel if they can secure an expanded base which allows them to plant as much corn as last year and idle land that may have been planted to other crops.

Corn bases were increased in 1986 under the following conditions:

(1) A change in farming practices from one crop to corn,

(2) A change from livestock to more intensive corn production,

(3) A change in tenants or land ownership, and

(4) A loss of planting records.

These changes limited the corn base reduction in 1986. Farmers with 15 percent of US corn base stayed out of the feed grain program in 1986 and over planted their corn base by 75 percent. This was partly to increase their base for future year's programs.

The corn carryover of 3.7 billion bushels this fall is expected to increase to over 5 billion by October 1987. US corn exports have dropped from 2.8 billion bushels in 1979/1980 to 1.3 billion bushels in 1985/1986. The data below indicates where these sales were lost.

US CORN EXPORTS BY REGION (million bushels)

REGION	76/77	79/80	82/83	84/85	85/86	86/87
EEC - 10	751	484	175	91	25	22
Other W. Europe	106	200	172	155	191	61
E. Europe	70	223	46	30	42	60
USSR	116	213	122	618	266	335
Africa	39	77	90	104	92	97
Japan	305	446	519	437	368	370
Korea	49	84	161	53	46	60
Taiwan	45	83	106	123	112	121
China	0	65	85	0	0	0
C & S America	96	301	235	115	151	220
Canada	83	164	54	5	0	5
TOTAL	1660	2340	1765	1731	1293	1351

The largest market loss was in EEC - 10. Corn exports in the current year are 18 million tons below 1976/1977 levels. That loss is roughly equivalent to this year's corn production in the entire state of Nebraska.

The reduced sales can be correlated with the increased wheat production and subsidized wheat consumption in livestock rations in Europe.

US CORN SALES EC - 10 & EC WHEAT PRODUCTION & FEEDING

	79/80	81/82	82/83	83/84	84/85	85/86	86/87
	--------------	--------------	---million tons	--------------	--------------	--------------	--------------
US Corn Sales	12.3	7.8	4.4	3.8	2.3	.6	.5
EC Wheat Prod.	48.8	54.4	59.6	59.2	76.4	65.9	70.1
EC Wheat Feeding	12.3	13.7	15.3	19.9	21.5	22.4	23.4

The increase in EC wheat production is largely the result of higher yields made possible by high guaranteed government support levels.

	1975	1979	1980	1982	1983	1984	1985	1986
Price Support								
US*	50	92	110	130	134	121	121	84
France**	152	149	156	179	184	182	179	170
* - $/metric ton								
** - Lowest intervention price, ecu/ton								
Wheat Yields - Bushel/Acre								
US	30.5	34.2	33.4	35.5	39.4	38.8	37.5	36.9
France	57.5	71.1	76.9	77.9	76.5	96.6	90.0	86.0

From 1978 through 1986, the US idled more wheat land than the total acreage planted in France; 109.8 million acres idled in the US versus 105.3 million acres planted in France. During this period, US production increased 5.3 million tons (9.5%) and French wheat production increased 11 million tons (64%).

Stated another way, the US from 1978 through 1986 contracted with US farmers not to produce 89 million tons of wheat while the French with their large production incentives encouraged an increase of 70.5 million tons of wheat. The French alone nearly offset the entire reduction in US wheat production.

As a result, the EEC since 1982 has dumped 24.3 million tons of wheat into the European livestock feed consumption which corresponds with the 27.3 million ton reduction of US corn sales into EEC - 10 since 1982.

To regain a significant tonnage of this corn demand will be very difficult and slow. The 1987 wheat crop will be planted in Europe this fall without any reduction in acreage because of farm policy change. This crop harvested in 1987 will be marketed in 1987/1988. Whether high support induced production can be held down in the future depends on our willingness to stay the course with the 1985 Act.

The entry of Spain and Portugal into the community will lower their purchases of US corn in favor of the cheaper EC barley and wheat.

East European corn demand depends on credit availability. If the US is willing to expand credit to those countries, corn demand can be increased to the level of a few years ago.

USSR and China represent the largest potential for US corn. Meat supplies for both countries are limited. To expand sales to both countries requires an improvement in trade relationship and a determination on the part of Administration's leaders to create an environment conducive to trade.

For these countries, with our lower support prices and CCC release prices, credit and export subsidies are not as important as a dedication to remove the discriminatory trade policies and the desire to demonstrate that the US will be a consistent and reliable supplier of grains and oilseeds.

The job in Japan and Korea is to regain the US' market share of those markets. As indicated below, the US has lost market share of corn and milo shipments to these countries.

CORN & MILO PURCHASES BY JAPAN AND KOREA

	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87
JAPAN								
World	17.5	16.8	16.1	16.8	18.0	18.4	18.3	18.7
US	15.3	15.3	13.1	14.0	15.2	13.6	11.6	12.0
% US	87%	91%	81%	83%	84%	74%	63%	64%
KOREA								
World	2.1	2.5	3.1	4.3	3.3	3.1	3.1	3.0
US	2.1	2.4	3.0	4.2	3.0	1.4	1.2	1.5
% US	100%	96%	97%	98%	91%	45%	40%	50%

The competitiveness of US grain should result in the US' share increasing to the previous levels.

Increased corn exports for the US will not be an easy task but the competitive prices are in place and should help overtime.

The added ingredient is the desire and programs of the US to create a better trade environment in Eastern Europe, USSR, China and other potential customers of the US. The US should continue to price our grain as competitively as possible and use every tool available to expand total world demand for grain. These tools include PL-480, credit infrastructure loans, barter and any other technique to effectively merchandise US grain.

Statement of the
National Grain and Feed Association
on The Impact of the 1985 Farm Bill
On World Agricultural Trade
Before the Foreign Agricultural Policy Subcommittee
# of the
Senate Committee on Agriculture, Nutrition, and Forestry

Washington, D.C.
July 29, 1986

Mr. Chairman and members of the Subcommittee.

I appreciate the opportunity to testify as to the impact of the 1985 farm bill on world agricultural trade. My name is Dale W. Fallat. I am the manager of law and government affairs for The Andersons in Maumee, Ohio. I am also chairman of the Agricultural Policy Subcommittee of the International Trade/ Agricultural Policy Committee of the National Grain and Feed Association, on whose behalf I am testifying today.

The National Grain and Feed Association is a voluntary association of grain and feed firms, independents and cooperatives ranging in size from the smallest country elevator to the largest grain and feed complex. Included in its membership are country and terminal elevators, merchandisers, processors and exporters covering the wide spectrum of grain and feed industry. Our membership is comprised of 1,250 companies and 43 state and regional grain and feed associations affiliated with the National which include upwards of 10,000 grain and feed companies nationwide.

Mr. Chairman, Charles Dickens in his novel, A Tale of Two Cities, provided a futuristic glimpse as to the current situation in agriculture with his famous opening phrase, "It was the best of times; it was the worst of times." U.S. agricultural producers are enjoying a period of agricultural productivity considered unobtainable 15 years ago. Improved plant breeding, selective genetics, and much more carefully planned soil fertilization and enrichment techniques have boosted American grain production by approximately 30 percent over the period 1975 to 1985.

In conjunction, however, with this increased productive capacity has been the implementation of government programs that have stimulated production without providing the means to market that increased production worldwide. U.S. agricultural policy prior to the enactment of the 1985 farm bill operated to undermine American agricultural competitiveness. U.S. grain exports have been declining since 1980 as our foreign competitors increased their productive capacity to take advantage of the high domestic grain prices created by high support levels under the 1981 farm legislation.

During this period of time, there was a tendency to place the blame for our declining exports on factors unrelated to U.S. agricultural policy. Typically, blame was placed on the "strong dollar" and "the unfair foreign trade practices." While both of these factors contributed to agriculture's declining competitiveness, the shifts in the world grain markets have been too broad and too fundamental to be explained merely by subsidized competition. The current lack of export movement would appear to counteract the "strong dollar" claim utilized in the past. The dollar has declined significantly from its high made less than a year and a half ago. Yet agricultural exports have continued to decline. Today's world food economy is an intensely competitive environment. To compete in this environment, the United States has to be able to compete on relative price terms.

It has been clearly established that for the past five to seven years, U.S. agricultural policy has actually stimulated our foreign competition. A large portion of competing exporters do not depend on export subsidies. Rather, they assess the risks and potential returns associated with agricultural supply and demand situations on a worldwide basis. Under U.S. farm policy of the early 1980s, these countries became very comfortable in expanding production by leaps and bounds. As long as world production remained at fairly reasonable levels, the U.S. loan rate provided some insurance that prices would not drop. And even if prices softened, our competitors were comforted by the thought that the United States would unilaterally act to control supply and raise prices in following years through acreage set asides.

Many competing exporters had abundant natural resources for agricultural production. U.S. policies that minimized investment risks of developing agricultural resources and U.S. price support levels that virtually assured high rates of return were all that were needed to promote foreign agricultural production. We enticed and nurtured foreign competition through our own domestic policy mistakes. Now those same countries have become and remain a formidable competitive force in the world marketplace.

U.S. non-recourse loans set minimum prices at high levels that were downwardly inflexible. Unlimited reserve entry periodically moved U.S. grain surpluses off the market, neutralizing the competitive factor of these surpluses. Acreage reduction programs cut U.S. planted acres as others expanded their production. Taken together, these policies provided competing exporters the opportunity and incentive to expand at the expense of U.S. agricultural producers. And this is just what they have been doing aggressively since 1980.

During our testimony last year as part of the 1985 farm bill deliberations, we recommended a four-point proposal to the committee that we believe would gradually return U.S. agriculture to a level of international competitiveness and prosperity. We cautioned the committee, however, that even under optimistic assumptions, agriculture faced difficult economic times for a minimum of two years. We continue to believe that a recovery will take some time. Prices do not instantaneously produce new demand, especially in the short term when prices of similar commodities offered by competing countries move down with U.S. prices.

The U.S. agricultural recovery cannot begin in earnest until signals of new U.S. policy cause our foreign competitors to reduce production capacity via reductions in acreage and output. Experience shows that productive resources do not move instantaneously in or out of any segment of an economy. This adjustment must necessarily take place over a period of time.

We stated that we believed that the difficult economic times in the short term cannot be avoided regardless of government farm policy decisions. We continue to believe, however, that with the correct farm policy prescription, U.S. agriculture can begin the recovery process.

The four-point plan we presented to Congress last year called for:

--Flexible market-clearing loan rates that lower the price protection that we offer foreign producing nations and permit the United States to sell and compete for world agricultural markets.

--Elimination of land diversion and set aside programs.

- --Modification of the grain reserve program to ensure that stocks do not become excessive with the reserve drawing grain away from the market and creating artificial shortages.
- --Income support payments to producers that are specified for an established transition period.

What has happened since then? On December 23, 1985, Congress passed the Food Security Act of 1985. While not following a strict prescription toward a more competitive agriculture, the new farm bill made some important strides toward market competitiveness. The new farm bill mandated lower loan levels and provided the secretary of agriculture with the discretion to reduce loan rates even further, closer to market-clearing levels. It provided the secretary of agriculture with the discretion to lower the loan rates by 5 percent per year, and an additional 20 percent per year as needed under what is referred to as the "Findley provision." For the 1986 programs, this set loan rates for wheat at $2.40 per bushel and for corn and feed grains at $1.92 per bushel. For the 1987 wheat program, the secretary of agriculture has indicated that the wheat loan rate will be set at $2.28 per bushel. The bill also included provisions to maintain producer income levels during the loan rate reductions. While not blunting the full impact of the price reductions on producers, the act went a long way toward cushioning the impact of a transition to a more competitive agriculture.

The bill also signaled our competitors that the United States would at least limit its use of other policy mechanisms that have so often been used in the past to artificially support prices. The act places specific limits on the amount of grain that can be entered in the reserve, and thereby held off the market to support prices. In addition, the act limits the use of set aside programs. While the act stopped short of eliminating authority to invoke year-to-year set aside programs that have so greatly benefited our foreign competitors in the past, the upper limits on set aside certainly send the message that giant acreage reductions such as those used in 1983 are not likely to be repeated.

Mr. Chairman, we believe the new farm legislation clearly is a step in the right direction towards U.S. international competitiveness. While the new farm law does not go the entire distance in terms of making substantive agricultural policy change, it did provide a beginning, and the tools to instill a competitive framework into U.S. domestic agricultural policy.

Mr. Chairman, where do we go from here? It is our sincere belief that the most important position Congress and the administration can take in terms of farm policy is to give the newly passed five-year farm bill a realistic opportunity to work. And that, more than anything else, means time, patience and resolve. Our foreign competitors need to come to the understanding and full realization that the United States is very, very serious about becoming more competitive agriculturally. They must believe that the United States will no longer set prices at levels that provide incentives for foreign producers to increase production to compete with the United States for international markets unless the marketplace truly warrants its.

Our competitors must be convinced that the United States will not resort to unilateral supply control actions such as giant acreage set aside programs. This educational process will not be simple. Our foreign competitors are reluctant to accept the fact that the United States will hold the course toward meaningful agricultural policy reform, and will be searching for signs of policy changes and lack of resolve. For that reason alone, Congress must avoid the political temptations to legislate for a strict supply control agricultural policy. We believe that even inappropriate discussion of such policies can damage U.S. agriculture and delay the progress toward economic recovery by giving our competitors hope that the United States will lose its resolve to compete in the world marketplace. Supply control policies have proven to be disastrous in other even less readily produceable commodities such as oil and tin. Supply management techniques will not work with commodities that virtually every country is able to produce.

The U.S. Department of Agriculture, while testifying before this subcommittee on June 3, 1986, suggested that likely future world supply and demand developments in grain would cause U.S. exports to rebound -- but gradually. The USDA indicated the drop in U.S. loan rates to competitive levels will eliminate much of the incentive to expand production in export competing countries as well as in importing countries. As Robert L. Thompson, assistant secretary of agriculture for economics, so clearly indicated in his testimony, "Once it becomes evident that the United States will not price itself out of world markets -- or set a high price floor protecting other producers -- the competitors are likely to stop or slow investment in new capacity for export.

If two words could be used to sum up a successful approach in the future direction of U.S. agricultural policy, the National Grain and Feed Association believes those words are "consistency" and "resolve." We must send a signal to our foreign competitors that the United States will consistently utilize all of the authority contained in the 1985 farm act to return U.S. agriculture to a competitive force in the international grain marketplace. Toward that end, we commend the administration for fully utilizing the authority provided by Congress to reduce loan rates to enable domestic commodity prices to become more competitive internationally. Implementing the maximum permissible loan rate reductions for wheat and feed grains indicates a true desire to return to an agricultural industry driven by market signals rather than federal programming.

Consistency in the application of agricultural policy not only signals to foreign competitors the risks they will encounter in the international grain marketplace, but also of the U.S. agricultural trade policy position. The administration has devised a policy framework for the upcoming negotiations under the General Agreement on Tariffs and Trade (GATT). For agriculture, this position will be one of "freezing agricultural subsidies and market access barriers and having a scheduled rollback (of subsidies) to zero by a negotiated target date." The 1985 farm bill provides the support and consistency for such a position. By giving the five-year farm bill the opportunity to meet its expected goals, the United States is indicating to the rest of the world that we will fight for our agricultural trade interests.

To be sure, our foreign competitors will be watching closely for any signs of lack of resolve from our nation's policymakers. Will the United States have the fortitude to stay the course? Or will America's policymakers, at the first sign that immediate gratification in terms of an overnight turnaround in export sales does not occur, begin tinkering and changing the farm law? The answer to these questions will be absolutely crucial to shaping the perceptions of our foreign competitors, and will influence as much as anything whether their planting and pricing decisions will begin to reflect a new "market" reality in world agriculture.

Mr. Chairman, to reiterate, we believe that the most effective method of corralling the runaway problems in domestic agriculture is to allow the programs and policies embodied in the 1985 farm bill to work. Abandoning a market-oriented approach in favor of past massive acreage reduction policies, or as some would favor a referendum/quota system, will only signal to the world that we do not intent to compete in the international grain marketplace.

To return agriculture to reasonable prosperity, our agricultural production must be marketed and sold. To sell, we must compete. If we can only show and exercise the needed foresight and resolve, the 1985 farm bill can lead to the lasting recovery rural America seeks.

STATEMENT OF GAYLON B. BOOKER, VICE PRESIDENT - OPERATIONS NATIONAL COTTON COUNCIL OF AMERICA

I am Gaylon B. Booker, Memphis, Tennessee, vice president-operations on the staff of the National Cotton Council. The Council represents cotton producers, handlers and processors from the Carolinas to California.

I am glad to be able to report to this committee that the cotton program you enacted last year is working very well indeed. As of July 17, U.S. cotton exporters had reported advance sales for the marketing year beginning next month that already exceed exports for the current year by 24%. These forward sales are over 40% of USDA's 6 million bale projection for the season ahead -- an estimate many cotton exporters now feel is too conservative.

Our overseas customers made those advance commitments on the basis that -- under the new farm program -- U.S. cotton prices would be on a par with world prices for the first time in 18 months.

And so thanks to the competitive prices insured for U.S. cotton by the new farm program, cotton's situation clearly was beginning to make a dramatic turnaround even before the new season began.

The turn around made possible by the new farm law couldn't have been more timely.

The cotton industry was in a near-crisis.

Projected world production and carryover stocks were at the highest levels in history.

Excessive foreign production stimulated by foreign government subsidies and the overvalued dollar was making the price of their cotton as much as 21 cents a pound lower than ours. We couldn't meet their prices because our price support, which was well below U.S. farmer production costs, put a floor under our prices.

And as a result, our exports -- at less than 2 million bales -- were at their lowest point since World War II.

But even that's not the whole story.

Imports of textile and apparel products -- made largely from foreign-grown cotton -- were flooding the United States ...

Putting our own textile mills out of business ..

And robbing our producers of their home market.

In short, the U.S. cotton industry -- from the farmer to the textile manufacturer -- was in big trouble.

It was up against problems it didn't create.

And it was up against problems it couldn't handle on its own.

Instead of competing with farmers in other countries, the American cotton grower was being forced to compete mostly with foreign governments; since most of it is produced in non- market countries and more than 90 percent of the cotton production outside of the United States is heavily subsidized.

But at the same time, he has been having to contend with fiscal policies and short-sighted textile trade policies imposed by his own government right here at home.

How does the new law deal with cotton's near-crisis situation?

By drastically reducing U.S. cotton prices to make them fully competitive both in overseas markets as well as here at home. Our prices for delivery next season have dropped more than 50 percent, and are among the lowest in the world.

To help the industry adjust to these low prices -- to get it through this transitional period -- the bill does two things:

First, it protects the U.S. cotton farmer's income through a flexible market loan and a system of target prices and deficiency payments.

Second, the bill protects textile mills and cotton merchants who had inventories of higher-priced cotton on hand when the new program took effect. To keep them from being hit with huge inventory losses and to avoid disrupting the whole industry, the program pays with government-owned cotton stocks the difference between this season's high price and next season's world price.

Mr. Chairman, the benefits of the new cotton program will accrue not just to the cotton industry but to the whole national economy.

Cotton exports are expected to triple during the program's first year, and expand even more in succeeding years. And this will mean a big boost for this country's balance of trade.

While it will not eliminate the foreign advantage of labor rates as low as 16 cents/hour in some areas, U.S. textile mills will become more competitive because under the new program they will be paying the same price for cotton that foreign mills are paying. This should make them more competitive in overseas markets, too -- and increased textile export sales will be another plus for the U.S. trade balance.

The program will reduce government stocks -- which now amount to several million bales. Every time a bale moves out of government storage, it saves the taxpayer 40 dollars in storage and interest each year. That adds up in a hurry when you're talking about millions of bales in storage.

Instead of having to cut production -- as they're being forced to do now — our farmers will be able to grow more cotton for an expanding market. This, in turn, will stimulate economic activity in cotton producing and processing areas. It will also avoid shifts of highly fertile cotton land into wheat, corn, soybeans and other crops which are also in excess supply.

Mr. Chairman, the cotton program is working and we urge you to resist with all your might any efforts to dismantle the program because of concerns about front end costs or other reasons. The surest way to render the program ineffective and increase its cost is to give our foreign competitors reason to question our resolve to keep the program in place. Nobody anywhere on the globe can grow cotton at today's world prices and even cover costs -- much less make a profit. We are confident that if we continue to meet the competition, our foreign competitors will be forced to share with us the responsibility for bringing the cotton supply back in line with demand. When that is achieved, world prices will rise and the need for these payments will be greatly reduced — perhaps ended.

The process has already begun. The going price outside the U. S. last year discouraged plantings in China and the Southern Hemisphere. Chinese acreage was down 25% in 1985 and Southern Hemisphere plantings were off 13%. We have only a few figures on 1986 acreage. Turkey is apparently down 19% from 1984 and Mexico a whopping 47%.

We in the cotton industry are making every effort to take full advantage of the opportunity to turn our situation around.

We are stepping up the industry's research and promotion effort.

We've sent three trade teams abroad to make sure our customers know we're back in the market with competitive prices. And we've emphasized that same point with five delegations of cotton customers that have come to this country.

Our healthy sales for the new marketing year tell us our message is hitting home...and we're confident that if the new farm law is allowed to run its full five-year course, cotton again will be a major contributor to the economy of this country.

We ask your help in seeing that it does.

EXHIBIT I
U.S. Cotton Supply/Offtake
Crop Years 1980/81 - 1986/87

(million 480 lb. bales)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 (Est)	1986/87 (Proj)
Beginning Stocks	3.0	2.7	6.6	7.9	2.8	4.1	9.4
Production	11.1	15.6	12.0	7.8	13.0	13.4	11.0
Total Supply	14.1	18.3	18.6	15.7	15.8	17.6	20.4
Domestic Use	5.9	5.3	5.5	5.9	5.5	6.3	6.8
Exports	5.9	6.6	5.2	6.8	6.2	2.0	6.0
Total Offtake	11.8	11.9	10.7	12.7	11.7	8.3	12.8
Ending Stocks	2.7	6.6	7.9	2.8	4.1	9.4	7.7

Source: USDA

EXHIBIT II
Cotton World Stocks, Production, Exports & Consumption
Crop Years 1980/81 - 1986/87

(1000 480 lb. bales)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 (Prel)	1986/87 (Est)
Beginning Stocks	21,172	21,210	25,197	25,021	24,977	41,698	47,255
World Less U.S.	18,172	18,542	18,565	17,084	22,202	37,596	37,891
U.S.	3,000	2,668	6,632	7,937	2,775	4,102	9,364
Production	65,002	71,180	68,057	67,679	86,864	78,118	75,327
World Less U.S.	53,880	55,534	56,094	59,908	73,882	64,686	64,627
U.S.	11,122	15,646	11,963	7,771	12,982	13,432	10,700
Consumption	65,969	66,114	68,215	68,694	69,858	73,363	75,316
World Less U.S.	60,078	60,850	62,702	62,766	64,318	67,058	68,516
U.S.	5,891	5,264	5,513	5,928	5,540	6,305	6,800
Exports	19,711	20,228	19,441	19,235	20,290	19,337	21,643
World Less U.S.	13,785	13,661	14,234	12,449	14,075	17,332	15,633
U.S.	5,926	6,567	5,207	6,786	6,215	2,005	6,010

Source: USDA-FAS

EXHIBIT III
U.S. Export Sales by Destination

(1,000 480 lb. bales)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 (Est)	Forward Commitments For Next Marketing Year July 31, 1985	Forward Commitments For Next Marketing Year July 17, 1986
Asia - Total	5,021	5,543	3,835	4,714	3,953	1,180	513	2,129
China, P.R.	1,375	848	20	12	6	0	0	0
Hong Kong	205	243	158	283	125	-	0	7
Indonesia	238	286	268	320	258	97	21	117
Japan	1,139	1,626	1,286	1,709	1,464	528	229	486
Korea, Republic of	1,303	1,412	1,322	1,269	1,257	468	236	754
Philippines	85	58	72	59	58	9	3	84
Taiwan	351	778	378	495	513	35	10	551
Thailand	207	167	197	244	139	16	10	103
European Community - Total	389	537	559	836	940	260	154	329
Other Western Europe - Total	165	245	207	301	343	39	29	61
Eastern Europe - Total	37	1	304	471	500	27	0	0
Africa - Total	33	41	49	126	229	165	3	14
Western Hemisphere - Total	281	172	254	337	246	96	37	33
Total - All	5,925	6,567	5,206	6,785	6,211	1,768	739	2,574

Source: USDA-FAS

TESTIMONY
OF THE
AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION

IN SUPPORT OF CERTAIN AGRICULTURE TRADE PROVISIONS OF THE FOOD SECURITY ACT OF 1985

July 29, 1986
Submitted to the

SUBCOMMITTEE OR FOREIGN AGRICULTURAL POLICY
OF THE
U.S. SENATE COMMITTEE
ON
AGRICULTURE, NUTRITION AND FORESTRY

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TESTIMONY OF THE AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION

The American Dehydrated Onion and Garlic Associations (ADOGA) continues to support several key trade provisions which became part of Title XI of the Food Security Act of 1985 (FSA). Those provisions include: a) the annual requirement for Agricultural Attache Reports, b) the requirement for trade consultations prior to tariff and import policy changes, c) the new position created for the President called the Special Assistant for Agricultural Trade and Food Aid, d) unfair trade practice sanctions, and e) provisions emphasizing studies for various commodities potentially threatened by unfair practices.

ADOGA is comprised of the four leading U.S. processors which specialize in the dehydration of domestically grown onions and garlic. Our products are dehydrated onions and garlic and onion and garlic flours.

The ADOGA member manufacturing companies produce dehydrated onion and garlic products for both domestic and export markets. Our member firms operate six plants in the Western

United States. These plants are located in several small rural communities; five plants are in California and one is located in Nevada.

ADOGA was created in 1956 as a nonprofit voluntary organization with its headquarters in San Francisco.

ADOGA's primary purposes in 1956, and today remain, to establish, maintain and enhance industry standards of quality, unify the nomenclature and increase the consumption of dehydrated onion and garlic products. Furthermore, we have invested considerable sums of money over the years in research to improve raw product varieties for dehydration, cultivation practices and packaging techniques.

Today ADOGA's principal objectives continue to be to improve the quality of the dehydrated product among its member firms and to promote product consumption. The consumer has benefitted from the consistent high quality standards that ADOGA members have applied in the manufacture of our onion and garlic products.

Although our specialized industry is a small segment of the agricultural community, it does have a significant economic impact in the rural areas of California and Nevade where it is concentrated. In addition to the manufacturing plants themselves, the majority of ADOGA's farmer-suppliers of onions and garlic live in California. Approximately 80-90% of these farmers are under contract to our member firms. In addition our economic impact reaches into Oregon and Arizona where our farmers purchase their seed supplies from farmers in those states. According to the U.S. Department of Agriculture (USDA) approximately 25,000 to 30,000 acres of onions for processing have been planted and harvested annually. In 1984, this represented on average about $59 million of farm value. For garlic, about 15,000 acres were harvested in 1981 which had a farm value of approximately $36 million. Most of that garlic crop was also sold to processors.

Production costs for our members are high in California due to the continuous rise in energy costs, transportation expenses and payrolls. Approximately 3,500 workers were employed in onion processing operations representing a payroll of $42 million in 1983. Almost 1000 more workers were involved in garlic processing with a payroll of over $11.5 million. The farm hands hired for field work were paid in the range of $4.12 to $4.42 an hour; This must be compared to wage rates of $3.38 to $3.54 which was the average elsewhere in the United States according to the Statistical Reporting Service, USDA (1984 figures).

Most importantly, however, I wish the committee to note that dehydrated onions and garlic are primarily industrial products. Our industry sells approximately 80 percent of our product to industrial users. Those purchasers- food processors and the food service industry - use our products as seasonings or as food flavorings. Only about twenty percent of our output reaches a retail consumer who usually buys our products packaged and distributed from spice manufacturers. Consequently, we are not highly visible in the food industry. This lack of high visibility is why we face critical trade problems and support the provisions addressed herein which became part of the Food Security Act.

We are testifying in support of three provisions in the FSA that we feel are key to our small segment of the agricultural community and to our survival in the world marketplace. The twin threads that bind these provisions together are the gathering of public information and the ability to communicate this information to important forums of our Federal government. The information that is gathered will benefit both our country and our agricultural industry as a whole; not just dehydrated onion and garlic processors. And the required communication forums again benefit both our country and the agricultural community as they give us a place where we can voice our opinions, thoughts and concerns to our government representatives. These representatives will need and must know that information as they prepare to negotiate trade agreements with other trading partners of the United States or decide import policies. These key provisions, fit together in order to create a strong scheme of required communication and information exchanges between the agricultural community and the Federal government. They are:

1) the Agricultural Attache Reports
2) the Special Assistant for Agricultural Trade and Food Aid
3) Trade Consultations; plus
4) Congressional provision from time to time for specific product studies; and
5) Unfair Trade Practice laws.

Indeed, ADOGA members were active in encouraging key Members of Congress in the drafting of the Food Security Act to place such provisions in the Food Security Act of 1985. From the initial introduction of the Administration's legislative proposal to the final stages leading to enactment of the FSA, ADOGA members encouraged Congressional leaders to realize that these provisions would provide a strong information base useful in the future negotiation of trade agreements.

The first three elements are important to ADOGA because they provide opportunities to express views to the White House, the Secretary of Agriculture and the U.S. Trade Representative regarding import and export problems we face in the dehydrated onion and garlic industry. The last two, while they do not directly pertain to us, are important to mention, however, because we believe they represent the Congressional determenation to study specific agricultural trade problems and issues within the agricultural industry and to take the steps necessary to remedy our trade situation so that the America agricultural community can compete fairly on a "level playing field" in the world marketplace.

The most important element in the Act is the annual requirement for the Agricultural Attache reports to be filed and to detail how other countries treat the agriculture sector of their economy. These reports will become a most important source of information for Congress, the President and the public. With these reports we can seek to inform ourselves about foreign government subsidization of agricultural commodity exports and other foreign trade practices that impede the export to American commodites. In addition, these reports will identify future export opportunities for American agriculture. Most importantly, our industry can use these reports for creating and developing our marketing strategies and for educating Congress and the public about unfair foreign trade practices that impede our exports and abuse our industry to the extent that jobs and economic productivity are often lost.

The United States Trade Representative (USTR) will also receive this information. In turn, this information will increase the Trade Representative's recognition of potential agricultural trade problems and will help ensure that the United States is better prepared for future trade negotiations.

The second element that will enhance the improvement of our food programs is the provision for the position of Special Assistant to the President for Agricultural Trade and Food Aid. We endorse this new appointment for the President and, when this position is filled, we see this as a direct and significant communication link to the President for the agricultural community. We will be able to communicate our needs and our problems directly to the Special Assistant and this will provide mutual benefit as an internal resource for information gathering and communication with interested agricultural groups will have been established.

Finally, we endorse the agricultural trade consultations that are called for both with our trading partners and with the appropriate agencies in our government. We encourage the Congress to see that the Administration continues the mandate of the FSA to seek and consult on an ongoing basis with both the Agricultural Policy and Technical Advisory Committees made up of private sector representatives. We feel these provisions will provide an important "safety valve" as problems can be spotted and talked about early. With these provisions we feel we will be able to discuss any changes or problems (before they reach a critical stage), with the Agriculture Department the ITC and the USTR.

As we stated earlier the Agricultural Attache reports, the trade consultations and the position of Special Assistant for the President are the most important provisions of the Act and we urge the Congress to ensure that they are fully implemented as soon as possible. We also want to state that we encourage the Congress to continue to study specific problem areas in agricultural trade as they arise. An example of this is the apricot study called for in this Act.

We support the Congressional findings and trade policy declarations in the act; this provision will "set the course" for future trade activities and negotiation to ensure free and fair trade practices by other nations and provide stronger remedies for U.S. exporters when fair trade practices by those countries cannot be secured. Furthermore, ADOGA supports the concept of specific commodity studies because these studies add to the knowledge base of the American agricultural community and the American trade negotiators. They will also inform the public of what really occurs in the international marketplace that causes injury to American exporters of agricultural products.

In conclusion, we feel the Food Security Act of 1985 will develop more agricultural commodity trade information for the American government and the American agricultural community of which we are a part. This information, coupled with the new forums for communication created, such as the Special Assistant to the President and the required trade consultations by the Secretary of Agriculture and the USTR, will mean new bonds will be forged between the Federal Government, the consuming public and the agricultural community. These bonds will ensure more knowledge about our trade problems and export opportunities abroad will be discoved. It will ensure our trade negotiators will be better informed, and thus better prepared, for new trade talks and negotiations. Consequently, American Agriculture will become a better served and more profitable segment of the United States economy and in the world trading community.

On behalf of the American Dehydrated Onion and Garlic Association we wish to thank you for this opportunity to testify. If you require any further information we will be glad to provide it to you.

Thank you again for your time and consideration.

AUGUST 5, 1986 HEARING

STATEMENT OF HON. EDWARD ZORINSKY
A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, the previous four hearings held by the subcommittee leading up to today's hearing have clearly identified the pressing need to maintain and expand export markets for U.S. farm products. Today's hearing is a logical conclusion to the series of hearings, but I believe that the committee must continue to exercise vigorous oversight on export trade matters. For my part, I will make every effort to convince the Administration of the need for immediate action to increase export volume, including the use of export programs to counter or offset unfair trade practices of competitor nations.

Nebraska farmers are frustrated and disappointed by the failure of this Administration to act decisively to shore up eroding export sales. Last Friday, Secretary Lyng announced that the United States was making the export enhancement program available to the Soviet Union -- but only to the extent of the four million tons of wheat the Soviets had agreed to buy this fiscal year. The announcement was disappointing to those of us who have urged the Administration to make the program available to all of our traditional customers.

Although the Soviets have previously claimed that the unavailability to them of the export enhancement program was the major factor influencing their absence from the U.S. wheat market, Secretary Lyng's announcement may not have its intended result -- the Soviets may stay out the U.S. market. Of the four million metric tons called for under the long-term agreement, the Soviets have purchased approximately 153 thousand metric tons. I rather suspect that if the Soviets buy any wheat, they will only buy the minimum tonnage under the long-term agreement. The Administration has given them a good reason not to buy in excess of that amount. In short, the Administration's announcement is too little, too late. Action to expand the export enhancement program to cover all of our traditional customers should have been taken months ago.

U.S. agricultural export sales statistics get worse each month. Recent statistics from USDA show that agricultural exports in fiscal year 1986 will decline by some 12 percent from last year's depressed levels, placing the agricultural trade balance -- at $7.5 billion --- at less than one-third the total of the balance when this administration took office. This reduced trade balance makes worse the mounting total trade deficit -- a deficit that may top $170 billion this year.

Unless rapid and decisive action is taken to reverse the trend, sagging export sales will lead to the unhappy prospect that the United States may become a net agricultural importer, as the May trade statistics showed.

Mr. Chairman, Nebraska farmers are losing money and may of them are losing farms that have been owned and operated by the family for generations. The poor managers went broke years ago -- today, even god farmers are in trouble because of low prices. These low prices stem, in part, from poor export sales in recent years and the prospect for worse sales in coming years.

If the good farmers are to stay in business, if rural America is to have schools and businesses, if the banking system of this nation is to remain sound, some solution to the financial crisis facing farmers today must be found. Farmers in my State cannot continue to tolerate low commodity prices on the hope that export sales will increase.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

If the country's 170 billion dollar trade imbalance were a hand of bridge, here's how we would handle it if we were smart. We do not have the bid, therefore we should lead from our longest and strongest suit our fourth highest card of that suit.

Our U.S. longest and strongest suit is agriculture and the cards we hold are huge surpluses of wheat, corn, milk, soybeans, rice, citrus, meat and cotton.

It is up to us to make the play and attempt to get the lead, and if we played the cards we have it is a cinch we can win the hand. But we are not following the experts' wisdom in bridge nor in trade. The continuous game of life keeps a running score, but the cards we hold need only to be played out to move us from the big losers to break even on the world's score pad on trade.

There are a variety of U.S. agricultural trade programs. Several types of Food for Peace programs are both building blocks for developing trade and tools for humanitarian food assistance as foreign policy. These must be used simultaneously with regular cash sales to countries with cash. This policy has been used successfully for a generation, but not now.

This Administration took over the reins of government with a near break even point on trade overall and a healthy, positive trade balance in the black on U.S. agricultural exports compared to imports. President Reagan continues to ignore the trade imbalance and he continues to regard agriculture in the same light as his previous smart remark, "Let's save the wheat and export the farmers."

That type of thinking fits in with the Administration's early 1986 discount sales of U.S. wheat to North African countries with a belief that such action would not set a lower world wheat price and that Russia, China and other cash customers would willingly deal with the U.S. at a 10 percent higher price. The Administration was playing poker when it bet that low price sales to others would be ignored by the bigger wheat-buying countries. They lost that hand, and now the President has okayed the lower price for Russia, while Australia, Canada and Argentina loudly complain they are victimized by this unilateral decision by the United States.

With the large quantities of stocks that we hold, the price that the U.S. sets in sales of wheat, corn or soybeans immediately becomes the world price. Earlier we drove the price of rice and cotton downward under what is known as the "marketing loan" program. The sales to North African countries on reduced price wheat occurred earlier this year, which caused France to lower the price of their wheat in sales to Russia and China, causing those two large grain-buying countries to refuse to purchase any wheat from the U.S. unless we must the lower world price which we had established by sales to North African countries.

But hold on. Is this not the way the high stakes, high rollers play it in the big arena of world trade? Isn't this the game plan that was laid out in the 1985 farm bill? No, the bill is more comprehensive that what the Administration has done.

The bill emphasized the need for a balanced approach with more emphasis on assisting developing countries with food so we could build permanent bridges of trade in the future. We set minimum levels for P.L. 480 and Section 416 and 108. These are Food for Peace programs which are designed to develop future trade opportunities with four score of developing countries ranging in population from one million up to the 800 million people of India. The minimum levels were mandated with strong admonishment that those were only minimums and that the State and Agricultural departments should double or quadruple the use of these programs.

Instead of following the logic of Congress, the Administration ignored it and has used these programs either sparingly or not at all.

While the farm bill represented the President's own Task Force on Agricultural Trade and Food Assistance, the President's smart remark abut exporting farmers and saving the wheat set the policy. The Agriculture and State Departments followed the line that there was really no big agricultural trade problem and that needed minor adjustments would correct themselves when the dollar came down. Well, the dollar is down and four score developing countries still don't have the cash. If they are going to benefit from U.S. abundance it will have to be through humanitarian trade building programs.

Last week's decision on allowing the low priced U.S. wheat offer to Russia was for four million tons. More than twice that amount of wheat could be used to assist the people in developing countries throughout the Food for Peace program. We have it and they need it.

Agricultural trade is much more important than a game of bridge or poker. It is high stakes that necessarily provides the opportunity for life itself and the opportunity for a better life for the future. It's high stakes for the people involved on both sides -- the people themselves that are short of food, particularly for the children to have adequate nutrition to safeguard their health and to provide them the chance to develop their potential both physically and mentally. It's high stakes for American farmers so they can survive economically. It's high stakes for U.S. agribusiness so they don't collapse.

The lives or livelihoods of these people should not be treated with the callous neglect that has become the Administration's way of doing business -- more correctly, not doing business. The people they neglect here in the United States are the backbone that makes us the largest and most efficient agricultural empire. In ignoring them, President Reagan has defied every rule of political wisdom. Worse than that, he has set the stage for the economic collapse of the country's largest industry, jeopardizing the entire economy. Farm families that are being neglected and the families in the rural communities of America as well as the families in the John Deere plants or the Simplot fertilizer companies are real people -- people of America's fabric who have at stake their life of toil and sweat and hopes and dreams. They are this country, and they are not for export.

It is the products they produce that are for export. The products they produce are good products and are needed by hungry people. We have some hungry in our own country both young and old. In response to the Harvard Physicians Survey that perhaps 20 million Americans are under-nourished, Ed Meese's conclusion that soup lines were meaningless and President Reagan's response that those who were hungry only need dial a telephone number both really miss the point. There are circumstances -- all too many -- where the land of plenty has not followed through to make sure that food is available.

For those abroad, it is incomprehensible to understand why this Administration claims there is no need for food among the 80 developing countries. Even when Congress mandates food assistance and points the direction, AID Director Peter McPherson ignores it. He finds all Africans well-fed. His counterpart, Foreign Agricultural Service Director Tom Kay says "We have crammed so much food down their gullets that it rots." But the Food and Agricultural Organization has documented a shortfall in wheat this year of almost two million metric tons in those African countries south of the Sahara. That list doesn't include Nigeria, although half of Nigeria's 100 million people apparently subsist on less than an adequate diet. We do not have a meaningful food arrangement with Nigeria due to the peculiar red tape with which the State Department ensnarls intself. Although wheat is generally consumed throughout Africa, the average per capita consumption in 40 sub-Saharan countries is less than one-fourth of wheat we consume and only one-third of Central America or India. To add to that, locust and grasshopper infestation threatens this year's wheat and other cereal production in several parts of Africa.

The Administration's agricultural policies including trade are failing miserably. The loss of trade is catastrophe for agricultural producers, rural America and agribusiness. Loss of U.S. agricultural exports not only severely damages the U.S. but increasingly damages our foreign policy because it ignores the food needs of two billion people living in four score of countries. The Administration has the backing from Congress, the law, the great strength of our agricultural abundance, and the urging of all the people who hold to common sense and morality in advocating the use of the Food for Peace programs. Why not, Mr. President?

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Since this is the fifth in the series of hearings on agricultural trade issues, I am prompted -- for the fifth time this year -- to compliment the chairman for holding these hearings. They have been timely, informative and provocative.

Today's topic concerning the upcoming multilateral trade negotiations is no exception. The new MTN round which will begin in Uruguay is less than six weeks away, and the need to address and resolve issues affecting agricultural trade are obvious and in my view compelling. Even the world leaders gathered in Tokoyo for the Economic Summit this year publicly recognized -- for the first time and largely at the urging of President Reagan -- the significance of restoring some resemblence of sanity and equity to agricultural trade.

If this is to be achieved, then the new MTN round is where we must begin the process. The participating countries must be prepared to adopt a meaningful definition of an "illegal subsidy." Currently prohibited under GATT are only those subsidies which allow exporting nations to acquire "an inequitable share of the world market." (A definitional variation of the adage that "beauty is in the eye of the beholder.")

Agreements reached in the new MTN round must result in greater market access for our agricultural goods. One need only look at the recent monthly trade figures which reveal that America is becoming a net importer of food products to see that market access has frequently been a one-way street. For our trading partners, the arrow has been pointing towards the profitable American market, while American exporters have frustratingly encountered a variety of road signs saying "do not enter"; "no thru traffic", and "dead end".

Our negotiators need to adopt uniform standards for imposing phytosanitary restrictions and other technical barriers to trade. A recent study by the California World Trade Commission, which I presented to this Committee last month, documents these non-tariff barriers which have been effectively -- but unfairly -- utilized by a number of Pacific Rim nations.

Finally, I believe that this trade round must put some teeth into the dispute settlement process under GATT. Currently, an offending nation can block the adoption of an unfavorable finding and the imposition of penalties. It is akin to requiring that a defendant in a U.S. court concur with the prosecutor regarding his guilt before permitting the judge to impose a sentence. As long as GATT continues to allow the defending nation to thwart the dispute settlement process, it is a worthless mechanism for resolving legitimate grievances.

What I have outlined, Mr. Chairman, is a weighty agenda for our negotiators, which explains why preparations for this round of multilateral talks have been occurring quietly for many months. In addition, there have been recent public developments -- pursued by the Reagan administration and enacted by this Congress -- which I believe constitute an extremely effective form of preparation for addressing agricultural trade issues.

During the past year we have prepared for the MTN round by adopting a farm bill which is recapturing lost markets and developing new ones for U.S. farm exports.

We have prepared by informing the governments of Taiwan, Korea and others that their duty-free access to out market -- through our generalized system of preferences (some people have concluded that the "G" in GSP actually stands for "Generous")-- is over unless American exporters begin to receive fair access to their rapidly expanding markets.

We have prepared by challenging the legality of more than a dozen restrictive import quotas which the government of Japan maintains on a variety of high-valued food products, including juices, peanuts and beef.

We have prepared by demanding that the EEC compensate American farmers for the export losses resulting from the accession of Spain and Portugal. We have informed the Europeans that such compensation -- to which we are entitled under GATT -- can ether be achieved through negotiations or extracted through retaliation.

It is my hope that further public preparation will occur this week by retaliating against the continued refusal of the EEC to settle the 16 year old citrus complaint.

Mr. Chairman, today's hearing is another important step towards the new MTN round which I hope will successfully address and resolve these difficult issues affecting agricultural trade.

STATEMENT OF HON. PAULA HAWKINS, A U.S. SENATOR FROM FLORIDA

Once again I am pleased that Senator Boschwitz is chairing these continuing hearings in preparation for the next round of GATT. This morning we are here to discuss the goals the United States hopes to achieve for agriculture during the next round of negotiations.

I am very pleased that we have the opportunity to hear from U.S. Trade Representative Clayton Yeutter on what he feels the United States should seek to gain in the upcoming round. As members of the Subcommittee know, agriculture is given special treatment as compared to other sectors. Agriculture's special place in any nation's domestic policy is easily understandable. As I have said before, it is not hard to understand why other countries develop policies that lead to agricultural abundance and self-reliance. However, we must not tolerate the predatory practices of many of our trading partners. Everyone here is aware of the recent announcement that U.S. agricultural exports have fallen into the red for the first time in 27 years. I don't believe that this Administration or any member of the Senate will allow this to continue.

Before we begin to discuss specific goals for U.S. agriculture during the next round, I think we need to know if in fact agriculture will be on the agenda. According to a recent article in Congressional Quarterly, this question is still in doubt. I hope that Ambassador Yeutter can shed some light on the status of the agenda this morning.

We also need to examine other questions as well. What has been the world's response to the current U.S. agricultural policy? How have the EEC, Australia, Argentina, and Brazil responded to the new policy in the farm bill? What is the likelihood that the nations of the third world will be ready markets for U.S. commodities at any time in the near future?

Again, I thank the Chairman for holding this series of hearings and look forward to working with him and with Ambassador Yeutter in developing our goals for agriculture in the next round of GATT. Thank you.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Mr. Chairman, I would like to commend you for your time and effort in holding this series of hearings on our agricultural trade policy.

I personally feel that today's hearing gets to the heart of this issue, as we on the Senate Committee on Agriculture examine the U.S. goals for agriculture in the upcoming round of trade negotiations under the General Agreement on Tariffs and Trade. I am most interested in finding out what the U.S. "goals" are.

Agriculture has been one of the few sectors of our economy that has consistently reduced our over all trade balance. Yet, it seems to be the first sector ignored or pushed aside to achieve other administration objectives.

Mr. Chairman, the administration's State Department and Treasury Department will readily convince the World Bank to require debtor nations to make policy changes that increase agricultural exports before loans are made to these countries. Agricultural trade is thought to be essential by this Administration if a debtor nation is to repay its international debt.

I would like to remind the administration that the United States of America is also a debtor nation. Agricultural trade is every bit as important to this country and its ability to repay its debt.

Thank you, Mr. Chairman.

STATEMENT OF HON. MITCH McCONNELL, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, you can tell how important an agricultural issue is by the number of the people we have in the committee room for a hearing. Clearly, we have a critical issue here if the size of the gallery and the number of Senators who've attended the hearings are any indication. I want to commend the Chairman, Senator Boschwitz, for his aggressive leadership role in the area of Ag exports. Last year as a new member of this Body, I looked to Senator Boschwitz for leadership on international agricultural issues and he was unfailingly in his willingness to help me understand the difficult issues involved. The hearing today is a fitting conclusion to an outstanding series of hearings.

Before I discuss international agricultural trade negotiations with respect to the GATT, I would like to briefly mention the results of a conference that I held in Kentucky on the subject of agricultural exports. There wasn't a consensus, per se, but the overriding theme was that the U.S. must take a more aggressive position in international trade negotiations. The patience of the American people has grown very thin, as we face a burgeoning array of barriers and unfair subsidies. It is becoming very obvious to this Senator that earnest negotiations with our trading allies are not likely to be fruitful until they are convinced that we mean business. The issues involved with the enlargement of the EC offer concrete examples of what I am talking about.

USTR made the usual "I'll huff and I'll puff and I'll blow your house down" statements, to which the EC replied with a collective "so what?" But much to everyone's surprise, Ambassador Yeutter announced that retaliation would be swift and meaningful if negotiations over the EC enlargement ended without an agreement. This decisive action clearly caught the attention of our European trading partners, because an agreement has been tentatively reached which offers hope that American farmers will no longer be ignored in international trade negotiations. Deputy Trade Representative Alan Woods, speaking at my Ag Export Day, stated that we can no longer allow countries to construct unfair trade barriers without some retaliation from this country.

I find it difficult to believe that our friends from Australia and Canada are so self-righteous over the Administration's decision regarding Russian grain sales. Planted acreage of wheat in these two countries has increased dramatically since 1980, while U.S. acreage has steadily declined in response to a shrinking world market. But until now, it appeared the U.S. farmer was the only world producer being asked to make a sacrifice to deal with the world-wide surplus problem. The President's actions clearly signal a need for some international cooperation on agricultural trade issues before a full-scale trade war is ignited.

I believe we could win a trade war, Mr. Chairman, but at a terrible cost. How many more billions of dollars would American taxpayers be asked to shell out, before the EC, Canada, Australia, Argentina and Brazil would agree to come to the bargaining table in earnest? The time is now to avoid this potentially devastating scenario, and there is no better place to address international agriculture than in the context of the GATT.

To President Reagan's credit, Mr. Chairman, he raised agricultural matters as an area of critical importance during recent deliberations with 7 othe heads of State in Toyko. Our recent actions with respect to the EC enlargement and Russian grain exports should send a clear signal that we are prepared to do whatever is necessary to maintain our position in the world marketplace. There is clearly a glut of agricultural commodities in the world, a serious problem that can no longer be ignored. During my recent trip to Seoul, Korea, I read with great interest an article in the Korea Times which described problems for the Korean government created by a growing surplus of dairy products in Korea. Sounds familiar doesn't it?

This Senator doesn't intend to ask his farmers to quit producing so that other farmers in other countries can take our markets. I hope this series of hearings has shown that the U.S. Senate will be supportive of aggressive bargaining positions on ag trade issues. If a unified posture from the Administration and the Congress can lead to a fair resolution of the Ag trade crisis, then the time spent here will have been more than worth the effort.

STATEMENT OF ALAN WOODS,
DEPUTY UNITED STATES TRADE REPRESENTATIVE

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss what's at stake for the United States -- and the world -- in the new round of multilateral trade negotiations, particularly in the field of agriculture.

The United States is the preeminent exporter of agricultural products in the world. Domestically, we consume only a little over half of our grain and soybean production, and less than half of our cotton production. The balance of these products goes for export, which alone added about $21 billion to gross farm incomes in fiscal year 1985. Put simply, we need internationally agreed and enforced disciplines over the use of agricultural import restrictions and export subsidies to ensure continued export sales.

The problem is that world trade in agriculture is in a state of crisis, largely as a consequence of highly subsidized agricultural exports, principally by the European Community, coupled with protected foreign markets. American farmers are losing market shares abroad because they simply cannot compete with these foreign subsidies, yet few new market opportunities are available.

Last Friday afternoon, the President took action that should lead to expand export sales for American farmers. He decided to allow grain to be sold to the Soviet Union at current world market prices in sufficient quantities to fulfill the terms of the U.S. - Soviet Long Term Grain Agreement. The unfufilled portion of the contract calls for the Soviets to purchase 4 million metric tons of U.S. wheat by September 30. This action is designed to help make the American farmer competitive by putting him on an equal footing with his foreign counterparts.

This is not the only action the Administration has taken to aid the American farmer and promote expanded export sales. Indeed, the importance of export markets was driven home in the debate surrounding passage of the 1985 farm legislation. We recognized that we were cutting ourselves off from foreign customers by loan rates which made us uncompetitive vis-a-vis other exporters. The answer by Congress and the Administration was to lower the loan rates while providing essential income support to growers through deficiency payments. Our message to to the exporters was clear: we would no longer hold an umbrella over world market prices and we would again be competing for export markets.

We have had some disappointments. The recovery in our export volumes has not been as rapid as many would have liked. One reason is because the effects of recent policy changes haven't completely settled in yet. Also, during the period when we held an umbrella over world market prices, competing producers increased their production and exports, but demand in importing countries did not grow correspondingly. As a consequence, world stock levels have increased markedly and it has become a buyers' market characterized by fierce competition among exporters.

These steps, and others like them, can alleviate pressures in the short-term, but cannot address the fundamental problems affecting international trade in agriculture. The long-term situation is simply intolerable. We must end the chaos that now characterized the international marketplace by bringing agriculture under effective and enforceable multilateral rules. We must eliminate import restrictions on agricultural products, treat agricultural export subsidies no differently than subsidies for industrial products, and eliminate other barriers to market access in developed and developing countries alike.

For the past seven months we have been working with our trading partners in the GATT to develop an ambitious, comprehensive agenda for new multilateral trade negotiations. The Preparatory Committee completed its work late last week, but was unable to reach agreement on a single draft ministerial declaration that encompassed the full range of issues that must be addressed. One of the key outstanding issues is the treatment of agriculture -- a subject which, from our perspective, simply must be included in the negotiations in a comprehensive way.

I am not particularly concerned about this situation. We are all well aware of the political sensitivies of agriculture trade, and it is not surprising that the technical level negotiators in Geneva were unable to resolve what is, in essence, a political problem. I am confident, however, that when Ambassador Yeutter joins the trade ministers of the 92 GATT countries during the week of September 15 in Punta del Este, Uruguay, we will be able to take the necessary political decisions to launch the new round and include trade in agriculture on the agenda.

Negotiations are urgently needed because the rules governing trade in agricultural products in the General Agreement are insufficient and unenforeable, thereby leading to distortions in foreign markets. From its inception, GATT has provided exceptions from the rules for agricultural trade. GATT members can apply import quotas on agricultural products if they in turn restrict domestic production and can subsidize exports so long as they do not take more than an equitable share of world trade.

The rules on agricultural trade are weak, vague, and easily circumvented. On the import side, countries do not need to apply quotas to restrict access to their markets. They can obtain the same effect with variable levies, minimum import prices or through the monopoly powers of marketing boards. These practices are not specifically covered by the GATT, and countries do not have to limit production to employ them as is required when import quotas are applied. In some respects, the United States' waiver for Section 22 quotas is partly to blame for this state of affairs. Countries do not feel compelled to live closely by the GATT obligations on quantitative restrictions when the United States is exempt from them by virtue of the waiver.

On the export side, trying to define an illegal subsidy is like shooting at a moving target. The principal criterion, "more than equitable share" that exports have taken is extremely difficult to prove, given the many ups and downs in market shares as a result of weather vagaries, livestock diseases and changes in importing country needs or policies.

We have attempted to deal with these problems in past negotiating rounds, but we have not been very successful.

In the Kennedy Round, we sought improved disciplines over the European Community's system of variable levies. We hoped to treat the variable levy as we would the traditional import duty -- that is, to reduce and bind it against future increases.

The United States proposed that there be no distinction between agricultural and industrial products in the Kennedy Round negotiations. We suggested that where fixed tariffs were the only barrier, they should be cut; where barriers other than fixed tariffs existed protection should be reduced by a comparable amount.

The EC, however, wanted to base negotiations on domestic support programs. For products subject to variable levies and other forms of internal price or income support, they proposed to bind the margin of support for three years. Variable levies could be changed to make up the differences between the bound internal price and the actual world price. Exporters would bind existing subsidy levels. If no subsidy existed, the exporter would be bound not to institute one.

The United States and other exporters found the EC proposals unacceptable principally because they would eliminate price as a mechanism for adjusting production and trade patterns and therefore discriminate against more efficient producers. Since the European Community subsidized far more products than did other countries, the EC proposals on export subsidies were similarly unacceptable.

During the Tokyo Round the United States focused upon obtaining greater discipline on export subsidies on agricultural products. The Subsidies Code specifically prohibits export subsidies on non-primary products. For farm products, export subsidies are permitted under the Code, so long as the subsidizer does not obtain more than an equitable share of world trade or materially undercuts prices of other suppliers to the same market. "More than an equitable share" was defined to include displacement of another exporter in a third country market.

U.S experience with resolving agricultural disputes under the code had not been satisfactory. A panel appointed to review EC export subsidies on wheat flour reported that it could not make a determination as to whether the EC had obtained "more than an equitable share of world trade" because the term "equitable share" was not precise enough.

A panel which reviewed EC export subsidies on pasta found that pasta was not a farm product and, therefore, export subsidies on it were prohibited. However, the panel decision was blocked by the European Community and other European countries who maintained that such export subsidies should be permitted to the extent the subsidy only compensated for the high cost of durum wheat in the European Community.

As I take stock, I conclude that there is a certain lawlessness in the conduct of international agricultural exchanges; past efforts at reform have been largely failures; and there is a growing propensity for conflicts to get worse. At the same time, I believe that the atmosphere is more conducive to reform today than in past negotiations. I am optimistic for two basic reasons.

First, subsidizing agricultural trade is exceedingly expensive and growing more so. Both the European Community and the United States will spend $25 billion or more on agricultural support programs this year. Each of us will also have massive surpluses to deal with, notwithstanding that enormous expenditure, and sometimes because of it. In the United States we currently hold almost one year's wheat production in storage and one half year's corn production. Dairy stocks are gigantic in both countries. The European Community has beef mountains and wine lakes.

Neither of us can go on like this. The tremendous expenditures that each of us is making in agriculture, and the fact that those expenditures only seem to be leading to greater surpluses, is likely to be the driving force that causes us to come together to reform GATT agricultural trading rules in the New Round.

Second, many other countries share our deep-rooted concern about the future of agriculture trade. A large group of both developed and developing countries have called for negotiations to bring meaningful disciplines to trade in agriculture and intend to take part in those negotiations. Australia, New Zealand, Thailand, Brazil, Argentina and Uruguay have joined together under the name of "non-subsidizing agricultural exporting countries" to pursue their common interests in the negotiations. While they have thrown brickbats recently at the United States' agricultural export policies, they have not spared the European Community or Japan from as much or more censure. Because their economics are so greatly dependent on agricultural exports, I believe that these exporters will be a positive force in developing more market-oriented rules for agricultural trade. I took to them for support in reaching -- and implementing -- early results for agricultural trade problems.

The principal issue to be addressed during the negotiations will be to define the extent to which national treasuries can stimulate production and exports and what types of restrictions can be placed on imports. A special committee within the GATT has prepared a list of options for strengthening the rules and disciplines on agricultural trade. We expect these options to form the starting point for negotiations on agriculture, which are expected to commence early next year. It is imperative that the negotiations move on a fast track. The world just can't wait five or six years for a major reform of agricultural policies in many countries, including ours.

Aside from the agriculture issue per se, there are a number of other subjects that we want to tackle in the new round that will help strength and improve the trading system and enhance the competitive opportunities for American farms, as well as industry. These include:

Dispute settlement: If the international business community is to retain confidence in the GATT system, an expeditious and effective dispute settlement mechanism is essential. The current mechanism is grossly deficient, and the negotiations should aim for a quantum improvement.

Import restraints: Current GATT rules allow countries to restrict imports on a temporary basis when faced with a surge in imports that injures a domestic industry. The problem is that, in practice, such actions are not temporary, limited in scope, phased down over the life of the measure, or open to international scrutiny. Both developed and developing countries alike would substantially benefit from improved rules in this area.

Improvement in the MTN codes of conduct: Five years experience with the agreements negotiated during the Tokyo Round indicates that there are a number of areas where improvements are needed in the codes. We want to strengthen the codes on subsidies, procurement, and standards by clarifying ambiguous applications and extending participation in and coverage of the agreements.

Significant tariff barriers also remain and we will need to analyze what creative new approaches might be considered in this area.

There is much to be gained for U.S. agriculture in a New Round. We are a competitive producer of agricultural products and as such it is in our long term interest to have agricultural trade based on the principle of comparative advantage. It is in Europe's interest as well to liberalize trade in agricultural products. Liberalization would help Europe to improve the allocation of economic resources and increase economic growth. Increased export opportunities for developing countries would help relieve their debt problems and allow them to develop more market oriented import policies.

There are lots of good reasons for committing ourselves to reforms in agricultural trade. The question we and other GATT members have to ask ourselves is whether we have the political will to actually carry out the task. Ambassador Yeutter intends to make a very strong case at the trade ministers meeting in Uruguay that we have no alternative -- we must end the chaos in international agriculture through new multilateral trade negotiations.

STATEMENT OF DALE E. HATHAWAY, PRINCIPAL
THE CONSULTANTS INTERNATIONAL GROUP, INC.

My comments will focus on three issues which I believe that members of this Committee and the agricultural community at large must deal with to prepare for GATT negotiations which includes agriculture. They are : (1) The role of agriculture in the trade negotiations; (2) the issues which should be negotiated; and (3) some choices U.S. agriculture must take.

First, I believe it is important that agricultural negotiations are a major feature of the GATT Round. There are two reasons for its importance: (1) The U.S. would have much to gain over the long-run by an improvement in the trading rules for agriculture; and (2) the very existence of GATT as an institution is threatened by the disputes arising over agriculture, which have become the major source of confrontation and frustration in GATT during the last decade.

I think, however, that U.S. agriculture must realize that this negotiation will be different than the last one in one important respect. Whereas in the Tokyo Round, U.S. negotiators could, and did, use negotiations on non-agricultural issues to push action on agriculture, in this negotiation agricultural negotiations will have to, more or less, stand alone. This is because in this Round the U.S. is the demandeur on Services, Investment, and Intellectual Property Rights. Thus, we expect to receive, not give, on these issues. There is no indication that our industrial sector or textiles wish to be offered as trading stock for agricultural gains. Therefore, I have to conclude that agricultural issues will have to be largely self-contained. This will lead to difficult decisions in U.S. agriculture, some of which I will discuss later.

Agricultural Issues:

Rules for agriculture in GATT differ from those for other products on two important regards. Whereas export subsidies are flatly prohibited on nonprimary products, they are allowed for primary products. Second, the GATT articles on import quotas allow them for agriculture if certain domestic programs are in place. In both cases, the U.S. was instrumental in writing the present rules.

Now it appears that the rules on export subsidies are not functioning in a satisfactory manner. Therefore, one of the primary goals of the next Trade Round should be rewriting of these rules. However, some countries argue, correctly I believe, that all agricultural subsidies -- export and domestic -- need to be included in these negotiations because they all have a major impact on trade. Therefore, if the agricultural trade negotiations are to be meaningful, they must deal with broad agricultural subsidy issues.

Second, the provisions relating to import controls need to be examined. In this case, the U.S. must come to grips with the fact that our Section 22 waiver allows us to follow different rules on imports of price-supported commodities that we require of other countries. We are now in the position of taking Japan to GATT on import quotas on several agricultural products while we use import quotas on several products under our special waiver.

I believe that during a period of worldwide excess capacity in agriculture, countries which apply some kind of effective domestic production controls should have the right to some kind of border protection for those products. I do not believe that the U.S. can expect to have one set of rules for themselves and another set for everybody else, however. Therefore, if the U.S. expects a serious negotiation on agriculture, we will be required to place our Section 22 waiver on the table.

Choices for Agriculture

The U.S. agricultural community will have to face some difficult choices in these negotiations. Are they willing to subject their domestic and international trade programs, including target prices, export credits, etc., to international disciplines if other countries come under the same disciplines? This will be the real test of whether we mean our rhetoric about a level playing field and that we are efficient producers who could prosper if there was a level playing field.

Second, are we willing to have the same rules apply to all world agricultural producers insofar as import quotas are concerned?

Unless the answers to both questions are yes, the prospects for a successful agricultural trade negotiation appear dim. I believe it would be a serious mistake for us to send our negotiators to the table with one hand tied behind their back by ruling certain issues off-limits in advance. Some groups will urge this approach, but it will play directly into the hands of those countries which want no successful negotiations, and could use limits on U.S. negotiating authority to refuse to participate.

Getting From Here to There

The prospects for putting agricultural negotiations on a fast track are not good. The E.C. appears adamantly opposed. In any case, I think that a fast track for agriculture would result in putting all the international political focus on a sector which already is difficult.

In any event, the agricultural negotiations will be long and difficult at best. It is unrealistic to hold out the prospects that GATT negotiations will solve the current problems of U.S. agriculture. Even if the U.S. obtained all of its goals in such a negotiation, any changes would have to be phased in over a five- or ten-year period. Therefore, it will be some time before a successful trade negotiation could have a major impact on world trade rules.

The present situation cannot be continued for a long period. Thus far the U.S. is the only country which is taking major steps to hold back excess agricultural output. I do not believe we can unilaterally undertake all of the world's adjustment in agricultural production.

The U.S. has now entered the Great Export Subsidy War at great cost to our taxpayers and to the world's other exporters -- subsidized and unsubsidized -- but with no appreciable benefit to our farmers. If this course continues, it is almost certain to create frictions which will make it impossible to achieve a satisfactory trade negotiation.

Basically, there are a substantial number of countries which would like to see improvements in the GATT roles for agriculture and, thus, are potential allies with the U.S. in its attempts to put limits on government intervention in agricultural trade. If, however, these countries find themselves competing against the U.S. Treasury, their support of the U.S. position may erode rapidly.

STATEMENT OF FRED H. SANDERSON, SENIOR FELLOW, NATIONAL CENTER FOR FOOD AND AGRICULTURAL POLICY, RESOURCES FOR THE FUTURE

Agricultural protectionism is not a new phenomenon, but international tensions over it wax and wane with the fluctuations of the world market. Substantial increases in production incentives in the European Community went almost unnoticed in the 1970s since there seemed to be an expanding market for all exports. Tensions rose when the boom collapsed.

Recent trade disputes have centered on the massive use of export subsidies which enable the EC to dispose of its surpluses at the same time that the U.S. resorted to costly measures to control supplies and farmers that were not insulated from the world market had to take lower prices. The U.S. has now entered the fray with its own export subsidies and an aggressive multiple-price policy.

Market access problems were high on the agenda of the agricultural exporting countries in the 1960s when the EC was still a major net importer of temperate zone agricultural products. The best remembered (though not the most important) dispute was the "chicken war." Rearguard actions are still being fought in this area. Examples are the U.S. complaint before the GATT regarding the EC's Mediterranean citrus import preferences that discriminate against the U.S.; and the current dispute over decisions in connection with the accession of Spain and Portugal to the EC. 1/ Of potentially greater consequence are the recurrent EC attempts to restrict or impair the free access of American soybeans and protein feeds that is guaranteed by zero-duty bindings negotiated in GATT. All these disputes have given rise to threats of retaliation and counter-retaliation that could escalate on a massive scale.

These are the most urgent agricultural issues that need to be addressed in the forthcoming Multilateral Trade Negotiations if we are to avoid a trade war that could become extremely costly to taxpayers and consumers in the countries concerned, as well as to other countries that are innocent bystanders in these disputes.

Paradoxically, prospects for reaching an accommodation in these two areas may have improved precisely because of the aggressive stance adopted by the U.S. and because of the mounting budget costs of present policies. We should seize that chance to negotiate an interim solution that would be in the nature of an armistice or standstill until circumstances become more favorable for the liberalization of agricultural trade.

I make a distinction here between accommodation and liberalization. Accommodations are deals among governments designed to resolve conflicts pitting their producers against each other. They usually eschew significant reductions in producer protection. But we always need to remember that the ultimate purpose of the GATT is liberalization -- that is, the reciprocal reduction of protection.

That there is a need for reducing protection cannot be doubted. Rough calculations show that the annual cost of agricultural commodity support programs to the taxpayers and consumers of the industrialized market economies has now reached $125 billion.

Unfortunately, the chances for liberalization of agricultural trade are not favorable for this upcoming round of trade negotiations. They looked a lot brighter a year-and-a-half ago when both the U.S. and the EC seemed to be moving toward greater market orientation. That was the time when the Reagan administration proposed to phase out all market-distorting government interventions over a period of five years. The administration's domestic proposals lent credibility to a trade policy stance that would rule out export subsidies of all kinds, convert import barriers into tariffs and negotiate them down as was done with industrial tariffs--all on a basis of reciprocity. That position is consistent with our general trade policy and with the principles of the GATT. It also is in keeping with the long-term interests of American agriculture. Needless to say, the 1985 farm legislation has compromised this position. Across the Atlantic, the European Commission's "green paper," which proposed a shift from price supports to more selective and less market-distorting forms of assistance to farmers, likewise was successfully sandbagged by the European farm lobbies.

Clearly, any significant liberalization of agricultural trade will have to await a resumption of the drive for domestic policy reform, here and abroad. I believe that time will come--perhaps sooner than we think. But in the meantime, I am afraid all we can hope for is a reaffirmation of agricultural trade liberalization as the ultimate goal, and perhaps a cap on, or a timetable for, a modest, gradual reduction of protection, expressed in terms of some overall indicator such as budget outlays or subsidy equivalents. However, the value of such general formulas is limited, since they would still leave ample room for trade-distorting policy changes.

Our first order of business should be to preserve and build upon those GATT rules applying to agriculture that have been, or could be, valuable to the United States in fending off harmful action by a trading partner. Once a trading partner has entered into a commitment to admit a product free of duty--as the EC did in the case of soybeans--it cannot renege on it without offering acceptable compensation or face retaliation (Article XXVIII). This concept also applies if a trading partner adopts measures that impair the value of a tariff binding or other trade concession (such as a tax on soybeans product, or a preferential arrangement with a foreign supplier (Article XXIII)). It should also apply to subsidies stimulating domestic production at the expense of imports. The underlying principle is that compensation is due whenever the balance of rights and obligations is disturbed.

In the absence of formal bindings concerning specific products, import restrictions are permitted to protect domestic agricultural programs but the Agreement provides that domestic production must also be restricted and that imports not be restricted more severely than domestic production (Article XI 2c). "Primary products" ar exempted from the ban on export subsides provided that export subsidies not be used to acquire more than an "equitable share" of world export trade in the product in question. "Equitable share" is somewhat vaguely defined in terms of shares in a previous representative period and further qualified by reference to possible "special factors," but the intention is fairly clear, that export subsidies not be used aggressively (Article XVI, B3).2/ The underlying principle concerning both import restrictions and export subsides is to maintain proportionality in the treatment of domestic and foreign interests. At the time--and even now-- the idea seemed to be acceptable compromise between "domestic policy imperatives" and the need to preserve a tolerable international modus vivendi--pending progress on the related problems of agricultural policy reform and trade liberalization.

In what follows, I shall review a few specific issues on which agreements should be within reach. I shall then discuss some other ideas--old and new--that could surface in the negotiations, which may look intriguing but, for the most part, have serious drawbacks.

Export Subsidies

Article XVI defines the limits within which export subsidies are allowed for agricultural and other "primary" products. 3/ Its essence is a standstill: a commitment by the subsidizing country not to exceed its "equitable share," defined as its recent share in the world market. But the article is replete with qualifying terminology that has given rise to divergent interpretations. What "previous representative period" is to be taken as a base? What "special factors" are to be taken into account in determining the "equitable share"? Is improved comparative efficiency a "special factor" justifying an increased market share? The Subsidy Code negotiated in the Tokyo Round did little to clarify these issues except that it defined the "previous representative period" as the "three most recent calendar years in which normal market conditions existed." But what are normal market conditions? Is this merely meant to exclude years in which the exporting country experienced unfavorable weather? Or does it refer to the situation that would exist in the absence of all distortions? What would a country's exports be in that situation? What econometric model is to be used to answer that question?

The best, and probably the only, practical solution would be to strip away most of these qualifications. Most important, we "should relieve the equitable share rule of the burden to prove the causality of export subsidization."4/ We should also rule out attempts to roll the base back to some hypothetical golden era that was free of market distortions. This would remove the principal ambiguity that has prevented an acceptable international modus vivendi.

It does not resolve another major problem: what constitutes an export subisidy. Should this include domestic subsidies that have the effect of increasing exports? There is some support for this in the language of Article XVI and the Code. Would this make American grain and cotton subject to the article? Or could the U.S. argue that its payments to producers are incentive payments for reducing production and that, in any event, acreage reductions required as a condition of the payments offset--and in some years more than offset--any production-stimulating effects of the payments? The econometricians would have to be called in to try to resolve that question. In any event, outright export subsidies such as those provided under the Export Enhancement Program clearly fall under Article XVI.

There are other questions. Should the equitable share rule apply only globally or also to specific markets? It would seem for both theoretical and practical reasons that an effectively enforced global limit should suffice. The destination of shipments within the limit could safely be left to transportation costs and other market factors. It does not seem reasonable to force the EC to divert shipments of wheat from nearby markets in North Africa and the Middle East to Latin America or China.

Should producer-financed subsidies be exempted from the subsidy rule? Several arguments have been put forward in favor of exemption. For example, a co-responsibility levy on producers to help finance export subisidies would reduce the average return to growers and thus reduce the incentive to produce. More effective in this regard are two-price systems which limit price supports to specified quantities, so that the marginal price received by producers would be the world price. But there are more persuasive arguments against exemption. (1) Co-responsibility levies can be shifted to domestic consumers, with adverse effects on consumption and a further increase in the export surplus.5/ Moreover, shifting the costs of export subsidization from the budget to domestic consumers would ease the budgetary constraint. (2) Experience has shown that, for a number of reasons, surplus production continues despite the price disincentives implied in various forms of two-priced systems. (3) Exemption of producer-financed subsidies would legitimize dumping, prohibited by GATT.

Should export subsidies be permitted for "primary" ingredients of processed agricultural products? A case could be made for this, analogous to the "drawback" principle invoked by exporters of, say, refined sugar when rebating the tariff on imported raw sugar. The EC has sought to extend this principle to justify export subsidies for wheat flour, pasta, and poultry to the extent that they are necessary to offset the higher price of EC grain. (The difference is that the grain may be domestic rather than imported.) These "ingredient" subsidies would, in any case, be subject to the limit on exports of the primary product in question. There are several problems with this approach, however. For example, where do we draw the line? Who determines that the "ingredient subsidy" is not excessive and in effect also subsidizes the processing industry?

Obviously, there will have to be some give-and-take here if we are to settle this issue. Budget constraints may lead the EC to agree to a cap on its wheat, flour, and/or total grain export shares based on a recent representative three-year period. What could the U.S. offer in return? We'd probably wish to avoid becoming subject to a cap on our export share (although one based on 1980-82 would not seem to be overly restrictive). However, we could offer to terminate our Export Enhancement Program (which in any case has proven to be of little value to us). We could offer to have a panel of independent experts examine whether our domestic deficiency payments/acreage reduction programs provide a net stimulus to production and exports, compared to what would happen without government intervention. We could offer to negotiate an agreement on export credit terms.

Market Access

Governments have been restricting agricultural imports by a variety of nontariff barriers (including variable levies, minimum import prices, state trading, voluntary export restraint agreements, and quantitative import restrictions) wherever such restrictions are deemed to be necessary to implement domestic support programs. However, only quantitative import restrictions (quotas) are mentioned in Article XI(c). The article provides, in effect, that domestic programs and the accompanying import restrictions must be operated in such a manner as to preserve foreign supplier's historical market share. The intent is, therefore, similar to that of the subsidy rule.

The U.S. has respected foreign suppliers' historical shares in administering its dairy import restrictions. Conveniently, the historical shares, dating back to the immediate postwar period, are very small. Historical foreign shares were also reserved in the beef import legislation enacted in 1964. In the case of sugar, where about half of the U.S. market was once set aside for imports, the U.S. began to violate the proportionality principle when domestic production came under pressure from corn sweeteners. For all three products, it failed to observe the condition that domestic production must also be subject to quantitative restraints; but it is not clear that this condition is necessary provided foreign access is assured by other means.

Article XI does not specifically address nontariff import barriers, other than quantitative restrictions, which have proliferated since the GATT was negotiated. The variable levies introduced by the EC in the 1960s escaped any discipline.

Logic suggests that the minimum access rule in Article XI should be extended to all new government interventions, including increases in domestic support prices and subsidies, that threaten to reduce imports. All programs would have to be administered in such a way as to safeguard traditional import shares. A base period would have to be agreed upon, as in the case of export subsidies. Minimum access could be provided by means of country quotas or a global quota. There would be no obligation to pay more than the world price for imports; foreign suppliers could be asked to submit competitive bids.6/ Compensation would be due for any failure to honor the minimum access commitment, whatever the reason.

With amendments along these lines, Article XI would be less biased against the U.S. than it is now. It may become useful in negotiating minimum access guarantees for high protein wheat and for feed grains in the EC. As part of the bargain, the U.S. should be prepared to give up the waiver, granted to it in 1955, which exempts it from the limited obligations contained in Article XI. The commodities that would give us the most trouble are sugar and dairy products. In the case of sugar, foreign policy and general economic considerations suggest that in any event the U.S. should not allow its sugar imports to drop to zero--as they will under present legislation. For dairy products, the U.S. might consider improving access for specialty cheese imports.

Conversion of quotas to tariffs should appeal to governments of importing countries because it would make import restrictions more cost-effective. The tariff revenue could be used to support and stabilze domestic producer incomes; it could also be used to compensate exporting nations that would lose their quota rents. Consumers would benefit from increased competition. Efficient foreign suppliers would be given a chance to increase their sales. Tariff rates should be scheduled to decline over time as domestic producers adjust to a more competitive environment.7/

The conversion of import quotas to a combination of tariffs and deficiency payments is particularly interesting where the price elasticity of demand is high. In such cases, the replacement of import quotas by duty-financed deficiency payments can increase demand sufficiently to result in a substantial increase in trade without adverse effects on producers in the importing country and at small or no cost to that country's treasury.8/

In the case of the U.S., this approach may commend itself for cheese. The tariff would be determined initially by auctioning off the import quotas. For beef, the import restraints are largely redundant: U.S. domestic prices are not significanly higher than world prices. For sugar, the equivalent tariff would have to be reduced drastically if we are to prevent imports from vanishing in the near future.

Improved Procedures for Settling Disputes

Disputes will inevitably arise concerning the interpretation and application of specific GATT provisions. When a member country considers that action taken by another member violates the Agreement, or nullifies or impairs its rights under the Agreement, it can bring a complaint. Article XXIII provides that the GATT Council shall investigate the matter and make appropriate recommendations to the parties concerned, or give a ruling on the matter, as appropriate. If this does not resolve the dispute, the Council may authorize the injured party to suspend such concessions or other obligations granted to the other party as the Council deems appropriate. Similar procedures are provided in the Subsidy Code, except that in this case the matter is referred to the Committee of Signatories of the Code.

In practice, the investigation of disputes is referred to a panel of experts. The panel tries to conciliate the dispute, but if no settlement is obtained, it reports its conclusions to the Council. The Council, acting by consensus that includes the disputing parties, decides on whether to adopt the panel's report and recommendations. It may also make recommendations of its own.

An assessment of the effectiveness of the process, by the U.S. International Trade Commission, concludes that it has been "adequate for managing all but the most contentious GATT disputes." Almost all of the "most contentious" disputes concerned agricultural trade issues, including five complaints brought by the United States against the EC for which adoption by the Council proved impossible. Cases involving agricultural subsidies proved to be the most intractable. 9/

There are no easy answers to the problem. The consensus rule in the Council probably cannot be changed. A formal rule that would require the disputants to abstain is not likely to be passed and probably would not help a great deal where large and influential trading partners such as the U.S. and the EC are either involved in, or affected by, the dispute. What is required is a political commitment to the arbitration process: panel findings should be presumed to settle the dispute, except in very unusual circumstances.

In any event there will be cases where action in the Council will be stalled indefinitely by the offending party. In at least one such case (Mediterranean citrus preferences), the U.S. retaliated unilaterally to offset the injury recognized by the panel. As matters stand, retaliation without authorization by the GATT Council is a violation of the dispute settlement process. This provision is untenable and should be repealed. Whenever an independent GATT panel finds that a country has been denied GATT rights by the action of another party, that country should have the right to retaliate if a panel report has not been adopted within a specified period. This should deter violations and impairments of GATT rights and encourage offenders to offer adequate compensation to avoid retaliation by the injured party.

This change would place increased responsibilities on the panels. Can they be relied upon to carry out their responsibilities impartially and decisively?

The past performance of the panels has been uneven. The panel that settled the "chicken war" in 1963 set an example of successful arbitration. Charged with determining "the value to be ascribed as of September 1, 1960, in the context of unbindings concerning this product [i.e., poultry] to the United States exports of poultry to the Federal Republic of Germany," the panel estimated the trade damage at $26 million (as compared with a U.S. claim of $46 million and an EC estimate of $19 million). The panel's decision was accepted by both disputants. 10/

Among more recent cases, the citrus panel stands out as a model for recommending sensible, constructive remedial action. Without attempting to judge the legality of the EC's Mediterranean preferences under GATT, the panel concluded that arrangements had upset the balance of rights and obligations to the disadvantage of third parties and that the U.S. was therefore entitled to offsetting or compensatory adjustment. In contrast to the poultry panel, the citrus panel did not provide an estimate of the extent of the trade damage but recommended, as a remedy, the reduction by October 15, 1985 of the EC's MFN tariffs on citrus products, which would reduce the degree of discrimination against third parties.

The wheat flour panel, on the other hand, is an example of extreme timidity in interpreting and resolving ambiguities. Its recommendations (February 1983) acknowledge that the EC export share had increased considerably; that these exports would not be possible without export subsidies; and thatthe subsidies may well have resulted in reduced sales opportunities for the U.S. It refused to conclude, however, that the EC had used its subsidies to gain more than an equitable market share, on the ground that the pertinent provisions of the Subsidy Code were not sufficiently "operational, stringent, and effective." A bolder panel might have found negotiating history that would have supported the selection of a three-year period immediately preceding the adoption of the code as a basis for defining the EC's "equitable share" and the extent of trade damage.

One step that could be taken to strengthen the panel procedure is to provide panels with more clearly defined terms of reference. These should include a request for determining whether the trade practices being considered were inconsistent with GATT or had nullified or impaired the benefits the complainant could reasonably expect from the Agreement. The panel also should be asked to estimate the extent of the injury. (The citrus panel, which was given rather vague terms of reference, proceeded to elaborate them.)

In general, the panels have been competent and have not been responsible for undue delays. Efforts have been made to ensure their impartiality by selecting chairmen from countries that could be expected to be neutral in the dispute, and by applying a rough geographical balance among the members. There has been some concern about the independence of panel members because they are generally drawn from the resident national delegations to GATT, who might be reluctant to let the chips fall where they may because of a desire to maintain good working relations with their colleagues. For this reason, it may be preferable to place greater reliance on nongovernmental experts. It has also been suggested that in important cases the Director General of GATT might serve as the chairman (as in the poultry panel).

This pretty much exhausts the areas of negotiation that I consider promising and worthwhile. Let me now turn to some other ideas that are questionable on either or both grounds.

Multilaterally Agreed Reductions in Crop Acreage

This idea, when broached by the U.S. during the Kennedy Round, was received without enthusiasm by the other major grain exporters. It is a natural for the U.S., which is already relying heavily on acreage restraints, and it is possible that mounting grain surpluses would now cause the EC to be more favorably disposed toward it. However, the EC as well as other major grain exporters are more concerned about the aggressive price and export policies recently adopted by the U.S. They would probably insist on a full-fledged commodity agreement, complete with floor prices and export shares, that would seem to be ruled out by the Reagan administration. Past experience with international commodity agreements indicates that they are impossible to enforce in a situation of chronic market glut. In any case, it is questionable whether the enshrinement of production controls in an international agreement would be in the long-term interest of U.S. grain producers, not to mention the public interest in ultimate progress toward a market-oriented world trading system.

Experience with the international dairy agreement, first negotiated in the Kennedy Round, which provided for minimum trading prices, has been discouraging for some of the same reasons. With effective production controls now in place, the EC might be inclined to promote a stronger international agreement that would not only set the floor prices but also limit production and exports in order to protect its now-dominant share in the world dairy market. Efficient exporters like New Zealand and Australia would probably object to limits on their production; the U.S. would oppose them in principle and perhaps also because it has only begun to enter the subsidized competition in the world dairy market.

EC Restraints on Grain Production in Exchange for U.S. Restraints on Exports of "Grain Substitutes"

"Completing the CAP" is a high priority for the EC. What is meant by this is plugging the last remaining gap in the protective wall around European agriculture: the free entry granted to protein feeds by virtue of the zero-duty bindings the EC conceded in the Dillon round. The EC argues, rightly, that these bindings impair the effectiveness of its grain support programs: over the past fifteen years, imports of duty-free "grain substitutes" (mainly protein feeds and cassava) have risen from 3 million tons to about 15 million tons. If these imports were limited, the EC would limit its export subsidies for grains, or reduce its grain support prices, or increase its co-responsibilty levy on grain, or limit the quantity of grain eligible for price support, or introduce incentives for acreage reduction. One EC trial balloon called for a voluntary limit on U.S. exports of gluten feed at the current level of about 3 to 4 million tons.

There are a number of reasons for taking a skeptical view of the EC proposal. Even though limited at present to gluten feed, it could be the entering wedge for impairments of the valuable zero-duty binding on soybeans. U.S. exports of soybeans and gluten feed together amount to $4 billion annually. To the extent that these exports have been stimulated by high EC grain support prices, they can be seen as partial compensation for EC restrictions on grain imports. The EC has refrained from taking unilateral action against protein feeds because of the fear of U.S. retaliation. Any concession the EC could make on its grain policy in return for U.S. concessions on protein feeds would be at best uncertain in their economic effects and legal standing. Why trade the bird in hand for the bird in the bush? Furthermore, it is not clear why the U.S. should assist the EC in removing one of the few sources of pressure that might induce it to reduce its grain support prices.

The Exchange of EC Restraints on Grain Production for Increased U.S. Dairy Import Quotas

This idea dates back to the 1960s but never got off the ground because of opposition by EC grain producers and U.S. dairy producers. Now there is the additional problem that any relaxation of U.S. dairy import quotas would add to the surpluses that have to be bought up by the government and disposed of at a loss. That problem would probably also preclude any increase of American dairy import quotas in return for EC concessions on high-quality beef imports for the U.S. However, it is, of course, possible that minor concessions--for example, on European and Japanese beef imports--can be secured in return for American concessions on processed foods or other manufactured products.

International Commodity Agreements

International commodity agreements to support prices, share markets, stabilize supplies and prices is an approach that has surfaced with some regularity in the past. The experience has been discouraging. The agreement negotiated in the Kennedy Round which provided rather modest floor prices for wheat, differentiated to take account of quality differences, broke down when the market turned soft, shortly after it was signed. Negotiations in the Tokyo Round that were intended to stabilize the wheat market through a system of coordinated national buffer stocks failed because of the inadequate contributions offered by U.S. trading partners and extraneous demands pressed by developing countries. The international sugar, coffee, and cocoa agreements never had sufficiently strong buffer stock provisions to stabilize prices within the intended range. In any case, the tendency to set floor prices above long-term market-clearing levels virtually assured the breakdown of the agreements as stocks soon exceeded the levels members were committed to hold. The success of the international oil cartel in raising prices for more than a decade was made possible by exceptionally favorable circumstances--an initial world-wide oil shortage and low short-run elasticities of supply and demand in the rest of the world. In the end, the cartel foundered over its inability to enforce tighter production quotas as demand and supply in the rest of the world finally responded to higher prices.

An OPEC for grains could be expected to be more vulnerable since grain can be produced almost anywhere and response lags are shorter. As the "Saudi Arabia" of the world grain market, the United Sates would have to bear most of the burden of adjusting production to a shrinking demand. Even in the relatively short run, the American farmer is, therefore, probably better off by relying on his basic comparative advantage, even though the competition for world markets may be distorted by foreign government interventions. This may explain why successive American administrations have beer unenthusiastic about international agreements to share markets and raise prices, and have shied away from market-stabilizing agreements that might drift off in that direction.

"Privatizing" Export Subsidies

Budget constraints account for the increasing popularity of this idea, particularly in the EC which has experimented with several different versions of it. One example is the imposition of a co-responsibility levy on each unit (ton of grain or hectoliter of milk) produced or marketed to help finance surplus disposal. This discourages production but, from the budget point of view, has an advantage over a similar cut in support prices in that all of the savings go to the budget; there are no benefits to consumers. In fact, part or all of the levy will be passed on to the consumer. Furthermore, producers may press successfully for an increase in support prices to compensate them for the levy. To the extent that the burden is shifted to the consumer, it may result in reduced consumption and increased surpluses.

The concept can be made more effective in discouraging production if a sharp cut is applied at the margin. For example, eligibility for price support may be limited to a quantity equal to 120 percent of domestic consumption; any additional quantities must be marketed at the world price (as in the EC sugar regime) or is penalized by a stiff tax (as in the EC milk marketing order).

The EC sugar regime--which is often commended as a possible basis for an international agreement aimed at restraining surplus production--has carried price differentiation one step further. Here an "A quota" (approximately equal to domestic consumption) is eligible for a support price of about 24 U.S. cents a pound of refined sugar. An additional ("B") quota (equal to about 22 percent of domestic consumption) is eligible for price support less a 30 percent levy on producers and processors to finance the disposal of this surplus. (The levy can be increased to 37.5 percent.) All quota sugar is also subject to a basic 2 percent co-responsibility levy. Any additional sugar is, in principle, not eligible for support and must be marketed at the world price. According to its advocates, the system is effective in (1) providing a guaranteed income to producers; (2) restraining excess production; (3) avoiding budget costs; (4) exposing incremental output to competition in the world market. 11/

If this model were to be adopted internationally, not only for sugar but for other price-supported commodities, 12/ negotiations could focus on reductions in the quantities eligible for support--first, to eliminate subsidized exports, and then to open up part of the market to imports.

On further analysis, however, many problems become apparent with this approach. First, it would promote and entrench a uniform pattern of national commodity cartels that shelter the inefficient and limit or penalize efficient producers. The quota system, even more than support prices, impedes the transfer of resources to other lines of production in response to shifts in demand or comparative advantage.

Second, while the quota system is restrictive, it does not prevent productivity growth. Yields will increase and generate increased surpluses for the export market. Producers will seek to maintain average returns by pressing for higher support prices on the quantities eligible for support. This would depress domestic demand and result in increased surpluses.

Third, the way the system is administered affects production and exports. For example, where growers' returns are pooled, production will respond to the blend price rather than the marginal price. Where production quotas are not freely negotiable (the purpose being to keep high-cost producers in business), many low-cost producers whose marginal costs are less than the world price will divert a large part of their production into the export market. Less efficient producers will tend to exceed their quota in order to protect themselves against the risk of seeing their quota reduced in the event they fail to fill their quota because of a poor harvest.

Finally, adopting this approach internationally would legitimize export dumping which has long been recognized as a form of unfair competition. In the absence of offsetting restraints on production, any regime in which only exports are exposed to the world market will result in greater production and exports than one in which all production is required to meet international competition.

"Harmonizing" Agricultural Policies

This rather amorphous idea, favored by the EC, has cropped up in several different forms. One version aims at adjustments of national policies with a view to (1) maintaining the desired level of protection of agricultural producers; (2) reducing the budget costs; (3) reducing or limiting the areas of friction among trading partners. A tall order--even though consumer interests do not figure prominently among the objectives. Increased export subsidies and sharply reduced American market price supports under the American Food Security Act of 1985 are cited as evidence of increased disharmony. Restraints on production are considered to be factors for greater harmony. The general idea seems to be "accommodation" among producers and governments--with the emphasis on U.S.- EC relations.

A more specific version calls for the equalization of levels of protection (including domestic and export subsidies) among different agricultural products, within each country and, apparently, also among countries. The theoretical rationale is that this would result in a better use of each country's agricultural resources. The idea has some economic merit but the difficulties of measuring effective protection (in relation to hypothetical prices that would obtain in the absence of government intervention) and of assessing the effects of harmonization are considerable. Nor is it clear that moving toward a "harmonized" level of protection would meet significantly less resistance than liberalization from producers who need, or who have become accustomed to, an above-average level of protection. However, as in the case of liberalization, the adjustment problems would be mitigated if two or more major trading partners (e.g. the U.S. and the EC) were to move simultaneously toward harmonization.

One reason for floating this idea may be that it suits the EC's agricultural trade policy. First, the use of the "subsidy equivalent" (or support margin) to measure levels of protection would treat all subsidies equally and would thus legitimize export subsidies. Second, the concept would be severely biased against the U.S. unless adjustments are made for the radically different trade effects of government payments--depending on whether they are subsidies directly stimulating production and/or exports, or income supplements not related to production or exports, or payments to induce farmers to idle part of their crop acreage or reduce their dairy herds. Third, "harmonization" would serve the long-standing EC desire to restrain the imports of protein feeds now admitted freely as a result of GATT bindings.

The U.S. response to a rearrangement of protection levels among EC agricultural products would have to depend on the specifics. The U.S. would probably be disadvantaged by a reduction of EC protection on beef and dairy products. It could benefit from lower protection on feed grains (including feed wheat) but if all that is offered is an increased co-responsibility levy on producers, or a two-price system, or incentive payments for land retirement, the effects would probably be too uncertain to justify giving up in return the valuable zero-duty bindings on oilseeds and gluten feed.

Harmonization of U.S. levels of protection would favor efficient foreign suppliers of dairy products and sugar, and efficient competing exporters of wheat, rice, and cotton. On the other hand, it would entail increased support for feed grains and soybeans which now receive little or no protection because they are competitive. The underlying thought is that encouragement of these products would make for a better use of American agricultural resources. However, "harmonization" is decidedly second-best to liberalization--both from the point of view of resource use and from that of reducing costs to consumers and taxpayers.

International Consultants on Domestic Policies

When everything else fails, it is usually possible to agree on a procedure for continuing "high level consultations" on changes in domestic agricultural policies. Thus an International Agricultural Consultation Council (the "Cathedral") was established in the Kennedy Round. Multilateral consultations have also taken place in the OECD and the U.S. has held regular bilateral consultations with the EC and Japan. Ideally, consultations should take place before changes in national policies are considered and certainly before they take effect. In practice, this has been difficult to accomplish, partly because governments are reluctant to show their hand and also because of the chaotic and unpredictable way in which national and EC policies are formulated and adopted. Nevertheless, institutionalized consultations have proven their worth if only because they force national policymakers to keep the international consequences of their actions in mind. In many instances, they have also helped to contain the escalation of trade conflicts.

FOOTNOTES

1/ The dispute is over the compensation due the U.S. for agricultural trade likely to be lost; whether compensation must take the form of EC concessions on agricultural products; and the nature and timing of transitional arrangements adversely affecting U.S. agricultural exports to Spain and Portugal.

2/ An attempt to define the provisions on agricultural export subsidies more precisely, in the Subsidies Code negotiated in the Kennedy Round, did not succeed--although the Code did reaffirm the thrust of Article XVI.

3/ Includes fishery and forestry products as well as minerals.

4/ Tangermann, Stefan, "Putting Agriculture in GATT," American Enterprise Institute, May 1986.

5/ Tangermann, Stefan, "Guarantee Thresholds: A Device for Solving the CAP Surplus Problem?" *European Review of Agricultural Economics*, vol. II, 1984, pp. 159-168.

6/ Global quotas would give new suppliers a chance to bid.

7/ See Robert Z. Lawrence and Robert E. Litan, *Saving Free Trade*, Brookings, 1986.

8/ It can be shown, for example, that the replacement of beef import quotas by a duty-financed deficiency payments scheme in Japan would increase demand sufficiently to permit more than a doubling of imports without displacing domestic supplies or reducing returns to domestic producers. See Fred. H. Sanderson, "Irritants in U.S.-Japanese Agricultural Relations," talk before the Japan Society, New York City, April 2, 1982. Based on an earlier analysis by Yujiro Hayami, "Trade Benefits to All: A Design of the Beef Import Liberalization in Japan," *American Journal of Agricultural Economics*, 61 (1979), pp. 324-47.

9/ U.S. International Trade Commission, Review of the Effectiveness of Trade Dispute Settlement under the GATT and the Tokyo Round Agreements, Washington, D.C., December 1985.

10/ Talbot, Ross B., *The Chicken War*, Iowa State University Press, Ames, Iowa, 1978. Based on the panel decision, the U.S. raised its tariffs on Volkswagen buses and brandy. This, of course, was small comfort to U.S. poultry producers.

11/ In practice, the system has received a subsidy from the EC budget in recent years. See Jasper Womach and Donna U. Vogt, *An Explanation of the European Community's Sugar Regime and Compari-*

sion to the U.S. Sugar Program, Congressional Research Service, Washington, D.C., June 1, 1985.

12/ See, for example, the *Economist*'s proposal, May 11, 1985.

STATEMENT OF THOMAS REESE SAYLOR

Mr. Chairman and members of the Committee, I am pleased to have this occasion to present my views on opportunities for American agriculture in the upcoming round of multilateral trade negotiations. As a negotiator in the last round of trade talks I am well aware of the the importance of establishing clear and broadly supported objectives. This series of hearings provide a very useful structure upon which American priorities and strategies can be formulated.

As important as the upcoming round of trade talks is to American agriculture, I believe that we must be pragmatic about our expectations. We are unlikely to see dramatic change in the elimination of unfair practices or in the rules which govern trade. Lingering high unemployment and sluggish economic growth in most nations of the world combined with low commodity prices suggest difficulty in convincing political leaders that the barriers of protection must be lowered. The addition of developing countries and some centrally planned economies compound the problem of establishing common denominators which can be incorporated into disparate national economic systems. Furthermore, volatile shifts in exchange rates which have become far more important than tariffs and other border measures in determining terms of trade.

Why then is this round so important and what can we reasonably expect to accomplish? First, despite growing dissatisfaction with the ability of the GATT to solve our trade concerns it is the only "show in town". We are a nation of laws and without such a framework, however flawed, to guide national policies affecting trade we would be far worse off than we are today. Even with our highly complex system of justice in the United States it is not uncommon for individuals and companies to break the rules and get away with it, or at least get a much lighter punishment than seems appropriate. But just because the U.S. system of justice is not 100 percent effective it would make no sense to do away with it. Similarly we need a common body of principles which provide some framework for rationalizing national policies affecting trade. A reaffirmation and strengthening, if even incremental, of the multilateral trading system is essential if we are to have any influence on the direction that nations develop their own rules affecting trade.

Some factors create a climate in which significant progress on agriculture might be possible in the upcoming negotiations. Low commodity prices and the enormous public cost of supporting farm producers in many of the developed countries suggest an impetus for change in national agricultural policies. Farm and commodity programs are expected to cost over $25 billion this year on both sides of the Atlantic. Without an unforeseen recovery in demand stockpiles of major commodities can be expected to grow. Domestic pressures have increasingly forced nations to undertake programs to dump excess supplies onto world markets.

I wish I could offer you the "quick fix" for our export problem. But, there are no substitutes for patience and hard work. The export "gimmicks" which have been proposed such as the Export Enhancement Program serve little more than to drive down world prices and increase program cost. The realities are that for most major U.S. export commodities such as grains and oilseeds we are unlikely to increase the volume of trade through subsidies. By and large, our competitors have systems which do not permit significant storage of commodities.

Essentially, the supply of commodities beyond domestic needs will be exported at whatever price it takes to move it. If we displace the European Community in one market, for example, they will make up for it in another market. Since other major exporters have more flexibility on pricing, they will watch the U.S. carefully and price their own product at whatever level it takes to sell their exportable supply.

It is popular these days to talk about a "level playing field". Of course, the field always looks skewed at the other end depending upon which end you are looking from. We feel that it is wrong for the European Community to limit imports of our feedstuffs. They feel we unfairly restrict dairy. We feel wronged when the Brazilians subsidize domestic oilseed crushing. They are not too happy with our import barriers on sugar and tobacco. We feel discrimination in our meat and poultry exports to Canada. They are claiming our domestic support programs for corn represent an illegal subsidy under their law.

Efforts to determine who sins harder are unlikely to produce rationalization and expansion of world trade. As international commerce has grown increasing important to U.S. industry and agriculture so has the difficulty in representing our trading interest. Yet, we cannot turn back the clock. American agriculture must have expanding exports if there is any hope of maintaining the scale of production for which we have a comparative advantage and are capable. And expanding exports requires an international framework which encourages trade rather than protection of domestic industry and agriculture.

What should be done?

The most pressing agricultural trade issue is the instability in international commodity markets. The major developed country exporters of farm commodities such as United States, Canada, Australia and the European Community must agree to develop mechanisms to insure that the national programs do not contribute to further instability. The first step is a recognition that domestic policy does have profound implications for international markets and that all have a self-interest in sharing in a process that leads to adjustment in supply and demand.

The above process should not exclude other countries but the necessary first step toward market adjustment is to agree upon a process toward rationalization of national policies, a commitment which developing countries are unlikely and which is basically unnecessary for such countries to undertake. As the lines of cooperation among developed exporting countries is agreed the consensus should be expanded by including the interests and involvement of importing countries.

Implicit in the above is a commodity by commodity approach to solving agricultural trade problems which should not be confused with the attempt in past negotiations to negotiate highly structured economic obligations in the form of commodity agreements. The nature of current supply imbalances requires commitments which are best undertaken in conjunction with the unique circumstances of commodity groups and are separate but related to trade liberalization. Yet, the traditional commodity agreement has sought unsuccessfully to "rig the market" with artificial price fixing and market sharing. Such approaches have not worked in the past or are they likely to work in the future. Rather, commitments should be aimed to the underlying cause of the supply imbalances--national systems which have become increasingly insulated from world market conditions. Each nation has different means of supporting its farmers, but all should accept undertakings within those systems which will lead to supply adjustments reflective of world supply and demand conditions.

Commodity market stabilization is only one step in meeting the needs of agriculture in the upcoming round of multilateral trade talks. Parallel to these discussions we must continue to make progress on the reduction or elimination of tariff and non-tariff trade barriers. This is the traditional "horse-trading" which has contributed to a gradual improvement in market access for U.S. farm products. However, if we expect to gain from this process we must be willing to give in terms of reducing some of our own barriers to agricultural and non-agricultural imports. It will take courage and leadership to give up such barriers for there is virtually no barrier to trade which is not politically sensitive. But if we expect others to permit us to enjoy the natural advantages we have in agricultural production we must be willing to consider the claims of others who represent cost advantages in serving the U.S. market.

Closely linked to tariff and non-tariff trade barriers are health and sanity restrictions. Such restrictions may be the consequence of legitimate concern over domestic public interests. However, in many cases such barriers could be adjusted so that the interests they are intended to protect are preserved but the rules could be formulated in such a way that they do not discriminate against imports. In other cases health and sanitary restrictions are simply poorly disguised international barriers to trade. In either case, the United States has lost millions in potential trade opportunities as a result of such barriers.

The most effective short term strategy with regard to such restrictions is bilateral discussions which include not only trade policy officials but technical experts. Concurrent with these efforts must be an intensification of multilateral efforts to establish effective international standards over the longer term. Progress will be slow and difficult in this area.

The GATT provisions on subsidies have received considerable attention over the last few years. The basic provision affecting agricultural export subsidies under Article XVI of the GATT provides that no nation should grant "directly or indirectly any form of subsidy which operates to increase the export of any primary product..." and should not use such subsidies to gain more than an "equitable share of world trade" taking into account trade shares from a previous representative period. During the Tokyo Round this provision was refined by attempting to clarify "equitable share of world trade" and previous representative period. Greater than an equitable share was deemed to be displacing other suppliers in a particular market. The previous representative period was normally set at the previous three years. It was further agreed not to force prices lower in given markets using export subsidies.

Obviously these provisions have done little to curb the use of export subsidies. Rather the U.S. has joined the game. I frankly feel that little can be done about export subsidies until the national policies which cause structural surpluses are addressed. Rather than attempting to refine the rules governing export subsidies we should strengthen the prohibition against export subsidies to include primary products. Further refinement of the rules regarding agricultural export subsidies is more likely to lead to a legitimation than to a reduction in the use of such subsidies.

There has been growing dissatisfaction with the GATT dispute settlement process. Those who expect the GATT to become a juridical body in which disputes can be resolved in the same sense as our own judicial system will continue to be displeased with the GATT. The GATT is a political agreement. It exists at the pleasure of the politics of signatory countries. If GATT judgements force nations into corners which are unacceptable within their domestic politics those decisions will be ignored. As a result there will be a growing disillusionment with the GATT as a framework for rationalization of national policies affecting trade.

The fact that the GATT cannot be such a juridical body does not undermine its utility. As a reasonable goal toward which we can rationalize our policies and as a broad body of principles for addressing trade disputes, it is irreplaceable. Yet as we refine the codes and rules we must seek common denominators which can accommodate broad circumstances. The focus must be on the trade effect and not on the national system itself.

What should we do if the talks fail? The fact that we can continue talking in spite of the growing complexities of world trade should be viewed as a success in itself. As developing and centrally planned economies become more important in world trade it is up to the major developed market economies to show a commitment to a system of rules. The failure to do so would lead to a disarray in trade policies which would hurt all players over the longer term.

Yet we should continue to press for change bilaterally, maximizing the considerable economic and political strength of the United States. Trade policy cannot be separated from monetary, defense and foreign policy and the interrelationship should be made known. The key is not to undermine the multilateral system by airing our disputes in such a way that the body of principles is flagrantly ignored. Continuing and convincing pressure, not bound by the artificial deadlines of a multilateral negotiation is necessary to make progress on many areas of sensitive national policy affecting trade.

The upcoming round of trade discussions offers U.S. agriculture an opportunity to make steady progress in reducing tariff and non-tariff trade barriers, rationalization of commodity markets and refinement of the rules on such important topics as export subsidies. Those who expect great breakthroughs announcements are likely to be disappointed. However, most important for American agriculture is the opportunity to reaffirm a commitment to a world trading system based upon rules, which while imperfect, are essential to the expansion of markets opportunities for our agricultural productivity. With patience, pragmatism and a commitment to such a system of rules I believe that there is much to gain in the trade discussions ahead.

BEFORE THE FOREIGN AGRICULTURAL POLICY SUBCOMMITTEE, THE SENATE AGRICULTURAL COMMITTEE

GATT NEGOTIATIONS: WHAT'S AT STAKE FOR THE UNITED STATES?

STATEMENT OF JULIAN B. HERON, JR.
HERON, BURCHETTE, RUCKERT & ROTHWELL

Mr. Chairman, members of the Committee, my name is Julian Heron. I am a partner in the law firm of Heron, Burchette, Ruckert & Rothwell. The Committee is to be complemented on holding this series of hearings regarding the treatment of agriculture during the new multilateral trade negotiations. The hearings mark a good beginning to the long process of seeking and obtaining meaningful benefits for United States agriculture during the forthcoming round.

The nation's declining agricultural trade posture makes it clear that special attention is needed for agriculture. In May and June of this year, the United States imported $419.7 million more in agricultural products than it exported, representing the first monthly agricultural trade deficits in a generation.

The deterioration in the United States' balance of trade for agriculture is attributable to a number of factors, many of which are outside the framework of the GATT. Among the principal causes are the continuing strength of the dollar, the world-wide recession, debt problems of developing countries, and noncompetitive domestic commodity prices. These are difficulties that cannot be corrected through multilateral negotiations. Although the country's agricultural trade has undeniably been impaired by the trade restrictive policies of foreign nations -- a matter that falls under the authority of the GATT -- multilateral discussions in this area are inappropriate until certain understandings have been reached.

Once these extra-GATT efforts and understanding have been achieved, a new round of trade negotiations may be useful for improving the international trading system for agriculture. To avoid the results of prior rounds, however, United States negotiators must give the highest priority to achieving more clearly defined and enforceable disciplines in agricultural trade.

Let me elaborate briefly on the problems outside the GATT framework that must be addressed, and then turn to the specific priorities and objectives to pursue on behalf of agriculture during the new round.

One of the leading obstacles to U.S. exports has been the overvalued dollar. The dollar's inflated value has made foreign agricultural products more attractive here, while raising the cost of American food overseas. Not long ago, United States grain traders found they could land grain from Argentina in the United States less expensively than they could buy grain here at home.

Although the recent depreciation of the dollar has helped some, the dollar has yet to rise against the currencies of this nation's principal agricultural competitors -- Canada, Mexico, Australia, Argentina and Brazil. More efforts are needed to correct monetary and fiscal imbalances before the United States can enter a new trade round from a position of strength.

Another problem requiring attention is the third-world debt crisis, which has contributed to a sharp reduction in the demand for United States agricultural exports. Between 1981 and 1983, United States agricultural exports to all Lesser Developed Countries dropped by $1.6 billion. Since GATT negotiations to reduce trade barriers will not resolve the debt crisis and reverse this trend, other international cooperative efforts -- including debt relief efforts made through the International Monetary Fund and the World Bank -- will need to be stepped up to remove this trade impediment.

The problem of noncompetitive domestic commodity prices will also require corrective efforts before multilateral negotiations get underway. It is now well established that the United States' system of domestic support prices and supply management has helped to drive up the country's agricultural cost structure and has allowed foreign competitors to undercut United States prices and expand production at the expense of our farmers. To regain international competitiveness and help address the budget deficit, this system will need to be changed. The United States will not be able to achieve any success within GATT unless it reestablishes itself as a competitor.

In addition to the work needed on these external GATT problems, certain understandings directly related to the GATT will also have to be achieved in advance of a new round. The United States would gain nothing by pursuing fair trading practices at the expense of our farmers, unless it is agreed that similar costs will be borne by all GATT participants. Before multilateral negotiations commence, the United States must abstract firm commitments from our trading partners that all measures affecting trade, market access, competition, and supply in agricultural products will be subject to negotiation in the new round.

The EEC has continued to maintain in the GATT Preparatory Committee that the Common Agricultural Policy is nonnegotiable. Other countries, such as Brazil, have shown a similar unwillingness to alter their subsidy practices. Because of this international reluctance to subject agricultural policies to review and negotiation, the United States will need to strengthen its hand by continuing its own aggressive government program to counter unfair trade competition.

The United States' unilateral retaliation on pasta in response to unfair EEC practices on citrus and its threatened retaliation in connection with both the 301 canned fruit complaint and the EEC accession dispute are steps in the right direction. It now appears that additional retaliation may be needed in the citrus dispute to achieve a meaningful settlement.

The new Targeted Export Assistance program and Export Enhancement Program also underscore strong U.S. commitment to maintain agricultural exports in the face of unfair foreign competition.

Every effort possible must be made to preserve and enlarge such programs.

These and other unilateral responses are believed to be the best way of demonstrating to key trading partners the error of their ways and attracting interest in a more disciplined agricultural trading structure. Until such interest is obtained, a new trading round would serve little purpose for United States agriculture.

Once this advance work has been undertaken and the new round begun, several priorities and objectives specific to agriculture should be pursued. In past negotiations, United States agriculture has not fared well, partly because of the insistence of foreign trading partners on isolating agricultural talks from other sectors and on negotiating more relaxed rules of trade for farm commodities. As a result, the agricultural rules were drafted so loosely that they have been neither respected nor enforced. To correct this, new rules will be needed. All measures affecting market access should be brought under strengthened disciplines, undifferentiated from the standards governing manufactured goods.

The United States' foremost goal in this regard must be to establish a trading system that allows the United States to benefit from its comparative advantage. This goal obviously differs from the goals of most other foreign countries, who, because they do not enjoy comparative advantage, would prefer to pursue a system of contrived advantage. The principal strategy and challenge of this negotiation will be to create a system under which every country benefits from the rules of comparative advantage.

For this goal to be accomplished, a variety of tariff and nontariff barriers will have to be prohibited. Of chief concern should be the issue of agricultural subsidies. The Subsidies Code negotiated during the Tokyo Round to improve disciplines on subsidies has been unsuccessful. This has been well demonstrated by the United States' Subsidies Code complaints against EEC wheat flour and pasta subsidies, and against Brazilian oilseed practices.

In a new trade round, the United States must seek clearer guidelines on subsidies, broader coverage for these rules, and an agreement on methodology for measuring subsidy practices. A general prohibition on all agricultural subsidies must be sought, with exceptions only for food aid. The rules governing domestic agricultural subsidies must also be strengthened to ensure that domestic aids are not used to enlarge the subsidizing country's share of either export or domestic markets.

Although less trade-distortive than subsidies, agricultural tariffs are another competitive concern, particularly in developing countries. In India, for example, shelled almonds face a prohibitive import tariff of roughly 221 percent. Countless other examples could be cited. Moreover, although only a small percentage of the agricultural tariffs of developing countries are bound, close to 90 percent of U.S. agricultural tariffs are subject to bindings. United States negotiators should correct these imbalances and seek significant tariff cuts to improve access for United States agriculture.

Attention will also need to be given to safeguard issues. The Tokyo Round negotiation of a safeguards code was inconclusive. As a result, a number of countries have been able to rely upon safeguard justifications as a cover for permanent protective devices for their agricultural sector. During a new round, a safeguards code should be completed to clarify the standard for escape clause relief, to provide injury standards, and to compensate affected exporters.

In addition to safeguards, a variety of other restrictive import devices -- such as variable levies, quotas, minimum import price schemes, and so-called health and safety requirements -- will have to be prohibited. Such practices, prevalent in Japan, Korea, Taiwan, the EEC and elsewhere, have caused a demonstrable decline in United States agricultural exports. Moreover, because other third country suppliers are also adversely affected by these nontariff barriers, the trade burden often shifts to the United States' market. The United States must seek GATT discipline over all agricultural restrictions. New and more realistic rules should be negotiated to govern them. All nontariff barriers should be phased out.

These substantive reforms will need to be complemented by procedural reforms. There is a broad consensus that GATT dispute settlement mechanisms are seriously flawed, if not useless. In most instances, protracted procedures and the absence of effective enforcement mechanisms have meant that the United States must sustain year after year the loss of trade advantages that other nations continue unfairly to enjoy. Because most of the United States' agricultural complaints involve displacement in export markets, unilateral import restrictions by the United States have only limited remedial effect.

The needed reforms in dispute settlement relate to all phases of the process. The process in general should be considerably more expedited. Several United States agricultural complaints have languished in the GATT for six or seven years, to the severe detriment of the domestic industries involved. Another reform might be to constitute dispute settlement panels from a pool of professional panelists. This would make the panelists more independent and accelerate the panel process. Rules should be established to make it more difficult to reject the panel report and to expedite GATT Council approval.

Foreign nations have found that it is to their advantage to delay the dispute settlement process -- both because they continue to benefit from illegal practices and because the United States' interest in a strong settlement begins to dissolve. To hasten the dispute settlement process, the United States should exact interest for any delay in reaching a settlement. As time passes, the United States' demands for an acceptable settlement should become greater and greater.

While not the subject of this hearing, it bears mentioning that because the GATT process is triggered by Section 301, amendments to strengthen Section 301 will also improve the effectiveness and efficiency of GATT dispute settlement.

It is worth reemphasizing, too, that no reforms, procedural or substantive, will be possible if foreign nations that are benefitting from an undisciplined system are not brought to realize that such a system has its costs. The United States must do its part to highlight these costs, be it through retaliation when foreign nations refuse to respect United States rights or through the use of promotional and other forms of export assistance to help aggrieved United States industries remain competitive in the face of unfair foreign competition.

These techniques are currently being used with success. In the case of the canned fruit 301 dispute, the threat of retaliation resulted in an EEC commitment to eliminate its GATT-illegal processing subsidy. At the same time, Targeted Export Assistance to the canned fruit industry has helped reverse downward export trends in Japan and other third markets. Similarly, the threat of retaliation has enabled the United States and the EEC to reach a temporary settlement in the accession dispute.

This aggressive protection of United States agricultural exports and trading rights, coupled by a larger national policy to deal with disturbances caused by the strength of the dollar, the developing country debt crisis, and other non-GATT trade concerns, will significantly strengthen the United States' hand at the negotiating table. If aggressively pursued, this approach may even enable the United States to pursue and achieve fast-track agricultural talks during the new round. The interest approach discussed in connection with dispute settlement -- i.e., the more time it takes to achieve agreement, the more demanding the United States will be -- might facilitate a fast-track agreement.

Should the multilateral trade round break down or reach an impasse because of member-country reluctance to subject themselves to agricultural disciplines, the United States must be prepared to walk away, rather than accept an unsatisfactory settlement. Once the United States walks away, it will need to accelerate its use of export incentives and unilateral 301 relief until our negotiating partners recognize the value of returning to the table. If the United States government is dedicated to this strategy, the new trade round should ultimately be effective in moving United States agriculture towards freer and fairer trade.

That concludes my statement. If there are any questions, I would be happy to try to answer them.

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